ORIGINAL

BEFORE THE FEDERAL MARITIME COMMISSION

PETITION OF
DANZAS CORPORATION
d/b/a DANMAR LINES LTD.; DANZAS AEI OCEAN SERVICES AND; DHL DANZAS AIR AND OCEAN

FOR EXEMPTION FROM
THE TARIFF PUBLISHING REQUIREMENTS OF
SECTION 8 OF THE SHIPPING ACT OF 1984, AS AMENDED.

PETITION NUMBER: P 1 -04

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FEDERAL MARITIME COMM

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JANUARY 22, 2004

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I. INTRODUCTION

Pursuant to Section 16 of the Shipping Act of 1984, as amended (the "Act"), Danzas Corporation d/b/a Damnar Lines Ltd.; Danzas AEI Ocean Services and; DHL Danzas Air and Ocean (" hereinafter Danmar Lines Ltd."), an FMC licensed[1] Non-Vessel-Operating Common Carrier ("NVO"), petitions the Federal Maritime Commission (the "FMC" or the "Commission") to exempt it from the tariff publishing requirements of Section 8 of the Act, in order to give Damnar Lines Ltd. and its customers the discretion to negotiate individually structured, confidential contracts for the specific combination of services that best fulfills each customer's particular transportation requirements.

Danmar Lines Ltd. would, of course, prefer that all tariff publishing requirements be eliminated, since it has been its experience that tariffs do not have any meaningful commercial value. However, this exemption petition is limited to those shipments for which Danmar Lines Ltd. chooses to provide confidential contractual services, and to be exempted from the tariff publishing requirements of the Act. Damnar Lines Ltd. and its customer(s) would then set forth their shipping agreement(s) in confidential service contract format, or in any other format mandated by the Commission, or pursuant to any other conditions which the Commission would deem appropriate as a condition of granting the exemption.

Danmar Lines Ltd. is one of the world's largest and most highly recognized names in ocean transportation. It is both an NVO and an integrated ocean logistics services provider. The services it provides to its customers include all of those services traditionally performed by NVOs as well as value added services including:

- vendor management,

[1] FMC. No. 315N. AEI Ocean Services, Inc. ceased operations and was merged into Danzas Corporation on January 1, 2004. An application to transfer the OTI license was filed with the FMC on July 21, 2003, and approved effective January 1, 2004.

- new market distribution,
- network analysis/design,
- process engineering,
- order management,
- site analysis, and
- supply chain engineering.

[Paragraph 1, Rathgeb Statement, Exhibit A]

Danzas Corporation was integrated in early 2003 into the DHL brand family of companies that currently form a substantial part of the "Express and Logistics Divisions" network of Deutsche Post AG (hereinafter "DHL"). DHL, 100% owned by Deutsche Post AG, is a financially stable, full service network of logistics companies with assets of approximately $15 billion. Its gross revenues for 2002, were more than $28 billion and its operating profits for the year exceeded $500 million. [Rathgeb Statement, paragraph 2]

Danmar Lines Ltd. is aware that a number of parties have submitted comments in response to other petitions now pending before the Commission that question the Commission's authority to allow NVOs to offer confidential service contracts. Some of these comments address the issue of whether Petitioners' request for an Exemption pursuant to Section 16 are appropriate. They assert that the petitions are requesting an "affirmative privilege" to enter statutory service contracts, and not a "requirement", which would be the proper subject of an exemption, Danmar Lines Ltd. asserts that these objections are merely semantics. In any case, to facilitate analysis Danmar Lines Ltd. is requesting that under certain circumstances an exemption from the tariff publishing requirements set forth in Section 8 be granted. Danmar Lines Ltd believes there is no question that the Commission does have this authority, since Section 16 allows the Commission to exempt any activity from any requirement of the Act. The tariff publishing requirement is obviously such an activity.

Danmar Lines Ltd.' proposes further that the Commission grant the exemption subject to whatever reasonable conditions, as provided by Section 16, that the Commission deems appropriate. This would include imposing conditions identical or similar to those that arc currently imposed on ocean common carriers ("VOCCs") by the Act for confidential service contracts, or other suitable conditions. The conditions imposed by the Commission would facilitate the Commission's ability to monitor Danmar Lines Ltd.' use of the tariff publishing exemption. As discussed more fully in Section IV of this Petition, granting this exemption will also further OSRA's deregulatory purposes. In short, if the exemption is granted, Danmar Lines Ltd. will be better able to respond to shippers' demands for access to all aspects of DHL's global transportation and supply chain management services in a single confidential arrangement, DHL, including Danmar Lines Ltd., would be able to provide comprehensive service packages in contract format, individually tailored to the needs of each shipper, charging rates commensurate with the services provided and corresponding to each shipper's unique logistics needs and traffic requirements.

This petition will demonstrate that an industry paradigm shift has occurred since OSRA was passed, and that the changes in the industry demand favorable consideration of the changes petitioned for herein, Danmar Lines Ltd. will also show that although the exact nature of this industry change was not, and could not have been predicted in 1998, it is precisely the type of unforeseeable development which Congress anticipated could occur and to which Congress intended the Commission to respond by exercising its exemption authority.

Danmar Lines Ltd.' petition will also demonstrate that the Commission has the legal authority to grant the exemption sought by Danmar Lines Ltd., and that the activities for which the exemption is sought are consistent with Congressional policies because they meet all of the requirements that Congress established for granting exemptions. These requirements are: (1) that granting the exemption will not reduce competition, and (2) that it will not be detrimental to commerce.

II. STATEMENT OF THE EXEMPTION REQUESTED.

Danmar Lines Ltd. requests the Commission to exempt it from the otherwise applicable tariff publishing requirements of Section 8 of the Act, to the extent necessary to permit Danmar Lines Ltd. to selectively and in its discretion, offer its customers in contract format a confidential, individually tailored package of logistics services, that includes ocean transportation. If the exemption is granted, and to the extent that Danmar Lines Ltd. exercises its discretion to enter confidential service contracts, Danmar Lines Ltd. would comply with whatever reasonable conditions the Commission might set for oversight of these confidential transactions, These might include simply requiring that the parties maintain copies of these confidential arrangements for a specified period subject to review by the Commission, in much the same way that the Commission provides for "special contracts" for freight forwarders at 46 CFR §515(33)(d), with the exception that these contracts would be confidential. Alternatively, the Commission might require compliance with the service contract provisions, or variations of those provisions contained in Section 8(c) of the Act and all of the Commission's rules governing service contracts in Part 530 of the Commission's Rules (46 CFR Part 530).

If the exemption is granted, to the extent that Danmar Lines Ltd. elects to not publish tariff rates and charges, and instead arranges transportation pursuant to a confidential arrangement, Danmar Lines Ltd. would not be subject to the tariff publishing requirements of Sections 8(a) and 8(b) of the Act and the corresponding tariff publishing rules in Part 520 of the Commission's Rules (46 CFR Part 520). In those cases in which ocean transportation provided by Danmar

Lines Ltd. does not come under a confidential contract arrangement, Danmar Lines Ltd. would remain subject to the applicable tariff publishing requirements of Section 8 and of the Commission's corresponding regulations. Approval of this exemption would place Danmar Lines Ltd. in an identical or similar regulatory position as the Act now imposes on VOCCs.

HI. THE COMMISSION'S AUTHORITY TO GRANT THE EXEMPTION IS CLEAR ON THE FACE OF THE STATUTE.

Section 16 of the Act governs the Commission's exemption authority. It provides that the Commission may:

> .by order or rule, exempt for the future. .**any** specified activity of those persons (subject to this chapter) from any requirement of this chapter if it finds that the exemption will not result in substantial reduction in competition or be detrimental to commerce. The Commission may attach conditions to any exemption and may, by order, revoke any exemption. No order or rule of exemption or revocation of exemption may be issued unless opportunity for hearing has been afforded interested persons and departments and agencies of the United States.
>
> 46 U.S.C. app. $1715

By its terms, this provision clearly authorizes the Commission to grant any exemption, so long as it satisfies the two tests it specifies: First, that granting the exemption may not result in substantial reduction in competition, and second, that the exemption may not be detrimental to commerce.

It is noteworthy, that when Congress passed OSRA, it not only continued the Commission's authority to grant exemptions, but Congress actually expanded the Commission's exemption authority by reducing the burdens to granting an exemption. Congress specifically eliminated two of the four standards that previously had to be met under the original 1984 Act More specifically, Congress 1) eliminated the standard that previously prohibited exemptions for activities that impaired Commission regulation, and 2) removed the earlier "unjustly discriminatory" test. Congress retained only the prohibitions against exemptions that resulted in substantial reductions in competition and in detriment to commerce. These changes, viewed both in terms of what Congress eliminated and what it retained, show that Congress intended to reduce regulation, increase competition and promote commerce. If the Commission were not able to grant exemptions with respect to any and all matters set forth in the Act, this conspicuous change in Section 16 would be a nullity. Such a result would run contrary to well-established principles of statutory construction.

The obvious premise of Section 16, as a legislative grant of authority, is that the Commission, as the federal agency most closely in touch with developments in the ocean transportation industry, is expected to apply its special expertise to grant regulatory relief designed to best promote the public interest. The only limitations Congress retained on the Commission's exemption authority were that any exemption the Commission granted must not be detrimental to commerce and could not substantially reduce competition. Before discussing how Danmar Lines Ltd.' petition satisfies these two conditions, it is important to give some context to that discussion by examining first the industry changes that have occurred since the passage of OSRA, and second, why those changes argue in favor of granting Danmar Lines Ltd.' petition.

IV. TODAY'S LOGISTICS SERVICES INDUSTRY.

A. CHANGES SINCE THE PASSAGE OF OSRA.

The environment in which the transportation industry exists today is radically changed from when Congress enacted OSRA. OSRA's legislative history shows that Congress' decision not to allow OTI's to offer service contracts was based on its perception of that 1998 transportation environment, which is clearly different from the one in which Danmar Lines Ltd. operates in 2004.

In 1998, Congress focused its consideration of service contract authority on distinctions between vessel operators and NVOCCs. The distinctions Congress looked at involved disparities in capital invested and services rendered.[2] As discussed below in Subsection B, these disparities are demonstrably inapplicable to DHL. DHL provides its customers with a well financed and efficiently managed, full-service logistics operation that reflects the paradigm shift that has occurred in the logistics sector during the past five years. Today, even such traditional vessel operators as Maersk-SeaLand have their own logistics operations, which include NVO services. Large and mid-size U.S. manufacturers have increasingly come to rely on full service logistics companies such as DHL. The identities of the logistics services companies themselves have also changed. The NVO world today includes such giant transportation entities as FedEx, UPS and DHL, as well as large consolidators including Shipco, NACA Logistics and CaroTrans. Today, DHL, like its major competitors, including FedEx and UPS provides its customers with a whole list of supply chain management services that were never the province of the traditional NVO that Congress considered in 1998.

When Congress was considering OSRA, transportation, like nearly every other industry, was rapidly evolving toward a service-based business model. Today, capital investment is no longer focused exclusively on vessels, trucks and planes. Today, the focus has expanded to include significant investment in the information technology systems demanded by shippers. In

[2] "Yet the Gorton amendment (to permit OTI's to offer service contracts) would basically accord these intermediary companies, who actually do not perform any transportation function itself, the same contractual rights that an ocean carrier enjoys, without any of the expense, without any of the liability, without any of the responsibility. That is simply not right, and it is not correct." 144 Cong. Rec. S3307 (daily ed. April 21, 1998) (statement by Senator Breaux).

short, unlike the earlier generation NVO, Danmar Lines Ltd. does incur the expense, does accept the liability and does bear the responsibility for the transportation services it provides.

Congressman Wayne Gilchrest has submitted a letter (Exhibit B) in support of an exemption petition submitted by UPS (Petition No. P3-03). Congressman Gilchrest was Chairman of the House Transportation and Infrastructure Subcommittee on Coast Guard and Maritime Transportation at the time Congress was considering OSRA. His letter confirms Danmar Lines Ltd.' view of the Commission's authority. Describing that time and those considerations, Congressman Gilchrest states,

> NVOCCs were then mostly small enterprises that neither owned ocean vessels nor the cargo being shipped. In order to protect shippers and to guarantee liability coverage, Congress determined NVOCCs should operate under a published tariff system when dealing with their customers.
>
> Now five years after enactment of OSRA, it is clear the U.S. ocean shipping industry has changed dramatically. The current regulatory scheme, however, puts NVOCCs at a distinct disadvantage and should be revised.

Standing alone, the fact that Congress chose not to allow NVOs to offer service contracts tells only a part of the story. It ignores both the subsequent changes in the industry and OSRA's underlying deregulatory and pro-commerce purposes. It is not only the NVOs that are denied the right to offer contracts to their shippers, it is also their customers, U.S. importers and exporters, that are denied the right to enter confidential contracts with reliable and financially stable integrated logistics service providers like Danmar Lines Ltd. These are firms upon which shippers have increasingly come to rely. Danmar Lines Ltd.'s petition seeks to align the regulatory infrastructure to which it is subject with the commercial environment in which it and its customers operate.

It is noteworthy that the Act does not include a specific prohibition against service contracts between OTIs and their customers. Considering that Section 10 lists some twenty nine (29) separate and specific prohibitions, the absence of any specifically enumerated prohibition against OTI service contracts must be taken as Congressional acknowledgment that 1) such contracts do not, per se, violate Congressional policy and 2) that in a changed commercial environment, one different from the one that existed in 1998, NVO-shipper contracts could become pro-competitive and beneficial to U.S. commerce.[3] This would certainly seem to be the position Congressman Gilchrest has taken. Therefore, it is certainly a permissible condition that the Commission might impose in granting Danmar Lines Ltd. petition to be exempt from certain tariff publishing requirements.

B. DANMAR LINES LTD. IS A FINANCIALLY STRONG AND STABLE PROVIDER OF INTEGRATED LOGISTICS SERVICES.

Danzas Corporation, as well as other financially stable and operationally competent OTIs, including many of those owned and operated by some of the VOCCs themselves, do not fit the NVO "model" that concerned Congress in 1998. Today's transportation industry is a truly new environment with different participants that did not exist when Congress considered OSRA Congress expected the Commission to adapt the basic regulatory framework of OSRA to accommodate those changes.

Viewed strictly as a stand-alone enterprise, in conjunction with its DHL operating affiliates, without any consideration of the tremendous financial resources of its parent company[4], Danmar Lines Ltd. today, by any standard of measure, is a huge, economically sound

[3] Arguably, the inclusion of the prohibition against providing services "not in accordance with. .a tariff published or a service contract entered into under section 8" in section 10(b) which applies to all common carriers (including NVOs), can be taken as further support for this position.

[4] Danzas Corporation submits this petition on its own behalf and on the basis of the financial strength of the DHL operating affiliates. The figures presented here are taken from the financial reports of DHL's parent, Deutsche Post AG, a large, publicly traded, multinational company. Its financial reports (Attachment 1 to the Rathgeb Statement)

and financially stable logistics business.

Danmar Lines Ltd. was integrated into the DHL network in early 2003. As of June 30, 2003, the DHL network had assets of approximately $15 billion. DHL owns and operates its own fleets of trucks in the United States and abroad. In addition, DHL has also invested substantial sums in the information technology ("IT") systems demanded by shippers in the current transportation/logistics environment. This investment extends to the corresponding skilled personnel who must be employed by integrated logistics companies such as DHL to work with and implement that technology. In terms of cash flow, DHL's gross revenues for 2002 exceeded $28 billion and its operating profits for the year were more than $500 million. [Rathgeb Statement, paragraph 2] Attached as Attachment 1 to the Rathgeb Statement is a detailed presentation of DHL's financial and operational information, which more completely shows DHL's financial strength, operational capabilities, and ownership of transportation equipment. Obviously, while Danmar Lines Ltd. is not an asset based operation, it does have the capability of offering integrated logistics and transport activities within the DHL family of companies, some of which do own assets in the United States and abroad.

V. AS THE RESULT OF INDUSTRY CHANGES SINCE 1998, GRANTING THE EXEMPTION WILL PROMOTE COMPETITION AND WILL NOT BE DETRIMENTAL TO COMMERCE.

DHL's proposed exemption, if granted, not only to DHL, but also to other financially responsible NVOCCs that might apply for a similar exemption, would be beneficial to commerce and would increase competition.

A. GRANTING THE EXEMPTION WILL NOT BE DETRIMENTAL TO COMMERCE.

are available publicly and are prepared in accordance with the accounting conventions imposed by the exchanges on which it trades. In calendar year 2002, Deutsche Post's operating income exceeded $48.5 Billion U.S. dollars.

Embodying total logistics services packages into confidential contracts, specifically tailored to the particular needs of each individual shipper will result in better pricing opportunities for shippers, The reason is simple, because with increased cargo volume commitments from its shippers, Danmar Lines Ltd. will be able to negotiate more favorable rates and terms with ocean carriers. In turn, this will result in Danmar Lines Ltd. passing on more competitive pricing and more advantageous service packages to shippers of all sizes. [Rathgeb Statement, paragraphs 27 and 33] Danmar Lines Ltd.' customers, American importers and exporters, have consistently supported the development of all inclusive logistics services packages, [Rathgeb Statement, paragraph 28]

In short, if the exemption is granted, Damnar Lines Ltd. will be able to address all the shipper's logistics requirements in a single, integrated, commercially driven, contract. Danmar Lines Ltd. could provide unique, customized services to each shipper, charging rates appropriate to the specific needs and traffic of the shipper, including ocean components in a single comprehensive contract.

All the justifying rationale relating to the enhancement of commerce resulting from the establishment of confidential service contracts that was considered by Congress in structuring OSRA in terms of VOCCs applies equally with regard to Danmar Lines Ltd.. Shippers would obtain exactly the same benefits if Danmar Lines Ltd. is exempted from tariff filing and given the right to enter confidential service contracts. Therefore, approval of this petition will benefit shippers and ocean commerce in general. This was demonstrated by the rush of shippers to the specially tailored service contracts offered by VOCCs immediately following the initial implementation of OSRA. Shippers have, without fail, consistently affirmed the benefits of confidential service contracts to them and commerce in general. In fact, as the Rathgeb statement makes clear, shippers do not search tariffs to obtain shipping pricing, Shippers want integrated transportation packages, covering all of their logistics needs, at rates tailored to their individualized requirements. [Rathgeb Statement, paragraph 29]

It is a foregone conclusion that confidential service contracts have created greater flexibility in pricing policy in liner shipping, and this is equally true of logistics services companies such as Danmar Lines Ltd.. In its September, 2001 study, "The Impact of the Shipping Reform Act of 1998" ("FMC OSRA Report"), the Commission concluded:

> Overall, the responses reflect that confidentiality under OSRA has provided shippers and carriers with the privacy they deem necessary to freely transact business. With the ability to shield such information, the contracting process is not constrained by the previous standards of meeting benchmarks and matching terms identically. Commercially sensitive issues and business requirements can be discussed more freely and accommodated more easily with specific contract terms. Carriers and shippers are more focused on achieving their individual rate and business objectives through contract negotiations
>
> (FMC OSRA Report, at 33-34),
> [See, also, Rathgeb Statement]

It clearly would benefit ocean commerce for DHL, including Danmar Lines Ltd., to have the ability to provide contract or other individualized terms for a myriad of services, including ocean transportation, as a part of an all-inclusive logistics sourcing service for its shippers Structuring complex logistics and transportation solutions in a tariff context, aside from the absence of confidentiality, is strained and difficult. The efficiencies of confidential contracting for total transportation packages, while not currently possible, are being actively sought by shippers. [Rathgeb Statement, paragraph 31]

Shippers are demanding confidential treatment of ocean rates, which cannot be achieved in the tariff-only regulatory regime that applies to NVOs today. Additionally, confidential service contracts with multiple components, including ocean rates and charges, result in customized packages of services at optimum pricing levels. Confidential contracts give the parties additional flexibility to adjust prices to conform with changing shipping conditions.

B. GRANTING OF THE EXEMPTION WILL NOT SUBSTANTIALLY REDUCE COMPETITION.

The foregoing discussion establishes that granting the exemption requested by Danmar Lines Ltd. will not be detrimental to commerce. Section 16 of the Shipping Act also requires that it may not result in the substantial reduction of competition, The exemption requested by Danmar Lines Ltd. would more than satisfy this requirement, because it affirmatively stimulates competition at many levels of the international transportation industry, including carriers and carrier-owned logistics companies, and other NVOs.

1. Carriers and Carrier-owned Logistics Companies

It is Danmar Lines Ltd.'s expectation that, if these Exemptions are granted, the ocean carrier-owned logistics companies such as Maersk Logistics, APL Logistics, Crowley Logistics, and others will seek similar treatment. Many of the major ocean carriers own a corresponding 3PL. [Rathgeb Statement, paragraph 35]. These companies will seek the same treatment for basically the same reasons as DHL. They are under the same pressures to offer integrated transportation and logistics services to their customers in confidential service contracts. The reason is simple. The services offered by a single ocean carrier, such as port-calls, sailing schedules, inland distribution networks and warehouse availability, to name just a few, are seldom sufficient to accommodate fully a shippers optimal logistics requirements. Note, for example, that the Maersk Logistics web-site prominently states:

> With Maersk Logistics operating as an Ocean Transportation Intermediary, a MSL Star express Bill of lading allows you access to almost 20 ocean carrier contracts.
>
> [Rathgeb Statement, paragraph 35]

In other words, it is clear that the Maersk-SeaLand, Inc., one of the world's largest and most respected vessel operators, relies only partially on its own vessel assets to provide its customers the delivery services offered by Maersk-Logistics. Maersk-Logistics requires access to vessels that are owned or operated by at least 19 other VOCCs to deliver its services.

Danmar Lines Ltd. recognizes that in today's environment, the ability of a carrier-owned 3PL company to offer services through its parent company's own vessels is of only secondary importance in terms of service and pricing. As Congressman Gil&rest's letter shows, those days are long gone. It is a well-known fact that most ocean carriers do not actually own the vessels they operate. Title to the vessels is typically held in the name of an owner trustee, acting for the benefit of the entity that provides the VOCC with its vessel financing. Another salient fact, as confirmed by the Maersk-Logistics situation, is that cargo booked by one VOCC is frequently transported on vessels operated by another VOCC under a slot charter or similar arrangement. The important issue today, unlike when the Gorton amendment was considered, is not who owns and operates vessels and how much capital they have invested in those vessels. Today, questions of competition must focus on whether the logistics companies, including those that are owned by VOCCs, are adding real value to their services, and that they are reliable and financially stable. [Rathgeb Statement, paragraph 38].

It therefore stands to reason that exempting large financially stable logistics companies, including those owned by ocean carriers, from tariff filing requirements and allowing them the flexibility to enter confidential contracts that include other value-added logistics services will increase rather than decrease competition. Competition would increase between VOCCs (and their affiliated 3PL firms) on the one hand, and financially responsible integrated logistics providers, such as DHL, including Danmar Lines Ltd., on the other hand. This, in effect, not only extends the market reach of those VOCCs owning logistics companies, but it also brings greater competition to bear as companies such as DHL, including Danmar Lines Ltd. are allowed to participate in this competitive endeavor by offering confidential service contracts to its shippers for a variety of services, including ocean transportation

2. Other NVOCCs Offering Value-Added Services.

The proposed Exemption would increase competition among NVOs, especially those NVOs that are already committed to adding value to their ocean transportation services. As noted above, there is a myriad of services that logistics companies provide to shippers. Ocean transportation is just one of those services. There are currently many NVOs that have made significant infrastructure and personnel investments, especially in the IT areas. These NVOs are likely to pursue much the same approach that is being sought here by Danmar Lines Ltd.. [Rathgeb Statement, paragraph 41]. These financially stable and forward-looking OTI organizations are competing by expanding the range of services they offer to their customers. Danmar Lines Ltd. believes that many of these companies deserve the same treatment Danmar Lines Ltd. is requesting, provided that they can demonstrate appropriate financial stability.

3. Other NVOs

There will be a tendency for those handful of NVOCCs that do not currently offer the all-inclusive services provided by integrated logistics companies, to become more competitive by giving incentives to enhance their logistics capabilities. This will further help to create more competition. [Rathgeb Statement, paragraph 42].

In conclusion, it is clear that granting of this exemption will not result in either the reduction of competition nor will it be detrimental to commerce.

VI. STANDARDS THAT SHOULD BE APPLIED TO THIS PETITION AND IF THE COMMISSION SHOULD IMPLEMENT A RULEMAKING

Danmar Lines Ltd. asserts that the Commission has the legal authority to grant an Exemption pursuant to Section 16 of the Act to Danmar Lines Ltd. by considering the criteria set forth herein. However, in view of the possibility that the Commission may opt to proceed in establishing criteria pursuant to a rulemaking proceeding, Petitioner hereby offers the following standards that it might also apply in such a rule-making. Notwithstanding that the DHL family of companies could readily qualify under any asset based criteria, Danmar Lines Ltd. instead offers criteria which would result in increased efficiencies by the industry as a whole, and increased competition, The following are pertinent:

1. Qualified NVOCCs should be those that provide a plethora of value-added services, generally those associated with supply chain management logistics, and which can demonstrate that they have a need for contracting in dispensing their services efficiently;
2. Qualified NVOCCs should be those who have demonstrated a continuing material investment in Information Technology in providing logistics/transport services to its customers; and
3. Qualified NVOCCs must demonstrate financial stability in the present and historically, taking into account conventional accounting standards in making those assessments.

VII. CONCLUSION

For the foregoing reasons, Danmar Lines Ltd. submits that it is within the Commission's power to grant the requested exemption and that granting Danmar Lines Ltd.' petition will affirmatively benefit US. commerce and increase competition. Therefore, Danmar Lines Ltd. respectfully requests that the Commission approve the Petition.

Respectfully submitted,

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Counsel for Petitioner

January 22, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this 22nd day of January, 2004, served a copy of foregoing Petition of Danzas Corporation, upon the party, named herein, by causing an original and fifteen copies thereof to be hand delivered to the following:

Mr. Bryant L. VanBrakle
Secretary
Federal Maritime Commission
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EXHIBIT A

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PETITION NUMBER: P______-04

STATEMENT OF MR. PHILIPP C. RATHGEB

JANUARY 22, 2004

VERIFIED STATEMENT OF PHILLIP BATHGEB

My name is Philipp C. Rathgeb. I am the Vice President, Ocean Freight North America of Danzas Corporation d/b/a Danmar Lines Ltd., Danzas AEI Ocean Services and DHL Danzas Air and Ocean ("Danmar Lines Ltd.“). The statements made herein are made on the basis of my first hand knowledge of those facts, or they are facts which come under my official duties, or which I have otherwise ascertained to be true.

1. Danmar Lines Ltd. is one of the world's largest providers of ocean logistics services and most highly recognized names in the ocean transportation industry. It is both a non-vessel-operating common carrier (an "NVO") and a full-service provider of integrated ocean logistics services. Danmar Lines Ltd.'s logistics services include all of the services traditionally performed by NVOs for their customers. Danmar Lines Ltd. also provides value added services such as:

    a) Vendor management,
    b) New market distribution,
    c) Network analysis and design,
    d) Process engineering,
    e) Order management,
    f) Site analysis, and
    g) Supply chain engineering.

2. Early in 2003, Danmar Lines Ltd. was integrated into the DHL brand family of companies ("DHL") that currently form a substantial part of the "Express" and "Logistics" Divisions of Deutsche Post AG. DHL, 100% owned by Deutsche Post, is a financially stable, full service network of logistics companies with assets, as of June 30, 2003, of approximately $15 billion. DHL owns and operates its own fleets of trucks. In addition, DHL has also invested

substantial sums in information technology ("IT") to better serve the demands of its customers. This investment also extends to the corresponding skilled personnel who must be employed to work with and implement that technology. In terms of cash flow, DHL's gross revenues for 2002 exceeded $28 billion and its operating profits for the year were more than $500 million.

3. DHL provides its customers the benefits of a large, well financed and efficiently managed ocean transportation intermediary ("OTI") operation that reflects the paradigm shift that has occurred in the logistics sector during past live years.

4. Today, as a part of this paradigm shift, such traditional vessel operators as Maersk-SeaLand have their own, in-house, NVO operations. Large and mid-size U.S. manufactures are increasingly relying on third and forth party logistics companies (3 and 4 PLs) such as DHL. The identity of the companies themselves has also changed. The NVO world today includes giant transportation entities such as FedEx, UPS and DHL, as well as large consolidators including Shipco, NACA Logistics and CaroTrans. DHL, like its major competitors, including FedEx and U.P.S., performs a whole list of supply chain management services for its customers that were never the province of the traditional NVO that Congress looked at when it considered the Ocean Shipping Reform Act ("OSRA") in 1997 and 1998.

5. In 1997 and 1998, transportation, like nearly every other industry, was rapidly evolving toward a service-based business model. In the cargo transportation sector today, capital investment is no longer focused exclusively on vessels, trucks and planes. Today, the focus has expanded to include significant investment in the information technology systems demanded by shippers.

6. In short, as a part of DHL, Danmar Lines Ltd. is totally unlike the earlier generation NVO, and the ocean shipping industry is not the same as it was in 1998.

7. Viewed strictly as a stand-alone enterprise, without reference to the tremendous financial resources of its parent company, DHL today, by any measure, is a huge, economically sound and financially stable business.

8. It is the world's largest and most experienced international air express network with service to 120,000 destinations in more than 220 countries and territories. DHL's extensive coverage is supported by 150,000 employees working in over 4,000 offices worldwide. Over two-thirds of these offices are directly owned and operated by DHL itself, far more than any other company in the express delivery industry. DHL is also a licensed customs broker in more than 140 countries. As a result, DHL is able to provide its customers with faster transit times, streamlined customs clearance, effective shipment tracking and simplified billing.

9. During just the first six months of 2003 (the most recent period for which figures are available), total revenues from the business units that make up DHL were €10,623,000,000 ($12,200,000,000).

10. DHL operates an unmatched global system of 118 hubs and 238 gateways, resulting in rapid and efficient movement of shipments and fast, reliable and cost-efficient service. This gives DHL the flexibility to use the fastest possible means of transportation to any given destination.

11. DHL's trans-European parcel and distribution network links 420 million consumers in more than 20 European countries via ten successful subsidiaries and partner companies. DHL is the leading parcel and document express delivery company in the world. The international mail network has direct links in over 140 countries and is one of the leading forwarders in the

areas of letter mail, direct mail, press distribution and goods dispatch.

12. In the logistics area, the new DHL includes among its customers, 50 percent of the "Forbes 500" companies that have logistics requirements. A total of 45,000 DHL Danzas employees now work in DHL's three logistics divisions. DHL has a global presence in 150 countries and operates 430 terminals and warehouses covering 3.1 million square meters of warehouse space. These numbers not only demonstrate the extent of DHL's logistics capabilities; they also demonstrate DHL's inherent strength and stability.

13. At the beginning of 2003, DHL's parent company, Deutsche Post AG, a large, publicly traded, multinational corporation with 2002 operating income of over $48,500,000,000, restructured DHL in order to integrate its existing worldwide express and logistics businesses. The businesses integrated into the new DHL at that time included: DHL, Danmar Lines Ltd. and Euro Express. Subsequently, on August 15, 2003, DHL completed the acquisition of the ground operations of Airborne, Inc.

14. The following is a brief description of the business units that together make up the new DHL.

A. DHL. DHL was formed in 1969 to handle air express document shipments from San Francisco to Hawaii. The DHL Network grew quickly and soon included services to the Far East and Pacific Rim, the Middle East, Africa and Europe. By 1977, it had extended its range of services to include delivery of small packages as well as documents. In 1982 alone, DHL added an additional 30 countries and territories to its service. In 1983, it became the first air express company to open offices in Eastern Europe and in 1986 it was the first air express company to open operations in China.

By 2002, DHL was the global market leader in the international air express industry, Its core business was transporting documents and packages, which it operated in over 220 countries and territories, serving over 1,000,000 customers with a staff of 71,000 employees, By then, DHL also offered e-Commerce fulfillment and intelligent logistics solutions, particularly segment specific solutions for various specialized markets, such as the automotive and life sciences industries as well as customized logistics solutions for its many other global customers.

B. DANMAR LINES LTD. Danmar Lines Ltd. was formed in 1815. In 1840, the company was entrusted with transporting mail from Le Havre to New York. In 1920, the company was one of the first to embrace air transport, and started an air freight service between England and France. By 1962, the company had opened its own freight terminal in Paris, In 2000, the merger of Danzas and Air Express International resulted in the group becoming the worldwide leader in air freight and one of the five leaders in ocean freight.

By 2002, Danmar Lines Ltd. operated in 150 countries. It was, and still remains, the world's leading provider of IT-supported logistic solutions. Its strengths are in innovative customized solutions, worldwide air and ocean freight, global project forwarding, European overland transport, e-business and 4" party (4PL) logistics.

C. **EURO EXPRESS.** Euro Express is the parcel and distribution network of Deutsche Post in Germany and throughout Europe. It provides a road-based service through an extensive and reliable European road network for both business and individual customers. As of December 31, 2001, it employed over 276,000 workers. In areas such as the European parcel service, airfreight and global air express, Euro Express was already a market leader, With the integration of Euro Express into DHL, DHL now serves a huge customer base of over five million business customers worldwide.

D. AIRBORNE. Airborne is the third largest overnight air parcel carrier in the United

States. Airborne's 2002 revenues were over $3 billion ($3,348,000,000). It employs over 22,000 people worldwide. Airborne has an 18.82% market share of the overnight air market and delivered approximately 356 million domestic parcels in 2002.

15. DHL's parent, Deutsche Post is a large, publicly traded, multinational company. Its financial reports are public and are subject to all of the disclosure requirements and accounting conventions imposed by the exchanges on which it trades. Extracts from its financial statements for CY 2002 and for January through June 2003 are attached as Exhibits 1 and 2, respectively, to this statement. The statements made in paragraphs 16 through 21 of this statement are based on those financial statements.

16. For accounting purposes, Deutsche Post's consolidated financial statements identify the business units that make up the restructured DHL under the headings "Express Division" and "Logistics Division." The restructuring is ongoing, and is intended to eliminate redundancies among the integrated business units, while at the same time making the best use of their operational synergies. The Express Division includes domestic and international parcel and express delivery services and cross-border mail transport. With certain exceptions, it is made up primarily of the air and overland businesses operated separately by Euro Express and by DHL before the restructuring. The Logistics Division implements complex logistics solutions for customers around the world. Again, with certain exceptions, it includes Danmar Lines Ltd. air and ocean operations.

17. The following table summarizes some of the more significant financial information from these reports,

		Full Year 2002	First Half 2003
Express			
Total Revenue	in €m	12,489	7,852
Profit from Operating Activities (EBITA)	in €m	243	168
Return on Sales	in %	1.90%	2.14%
Investments	in €m	3,759	613
Full Time Employees (Excludes Trainees) (Yearly Average as of Dec 3 1)		107,453	124,469
Logistics			
Total Revenue	in €m	9,152	2,771
Profit from Operating Activities (EBITA)	in €m	224	77
Return on Sales	in %	2.40%	2.80%
Investments	in €m	381	162
Full Time Employees (Excludes Trainees) (Yearly Average as of Dec 3 1)		45,250	31,684

The amounts above are expressed in Euros, as they are in the reports prepared by DHL's parent company

18. The aggregate revenue and operating profit of the business units, the Express and Logistics divisions, that make up the new DHL, expressed in U.S. dollars, are as follows, and do not include Airborne's revenues or operating profits:

	Full Year 2002	First Half 2003
Total Revenue	$24,890,000,000	12,200,000,000
Profit from Operating Activities (EBITA)	$535,600,000	$229,400,000
Return on Sales in %	2.16%	1.88%

In the first six months of 2003, DHL's revenue was over $12 billion dollars. Profits were nearly $230 million dollars. These are six-month numbers and, again, they do not include Airborne's revenues or profits.

19. Exhibit 3 to this statement is an extract of American Shipper's annual ranking of the world's largest logistics and transport groups, which was published in its October 2003 edition, ***American Shipper*** ranks DHL's parent as the worlds Number 1 logistics and transport group. A comparison of DHL's own revenues, apart from those of its corporate parent shows that, in terms of strength, it compares favorably with the leading VOCC-based transportation groups,

20. The amounts shown in paragraphs 17 and 18 of this statement do not include the additional revenue and profits that will now accrue to DHL as the result of its August 15, 2003 acquisition of Airborne's ground operations.

21. Airborne is the third largest air overnight parcel carrier in the United States. Airborne's 2002 revenues were over $3 billion ($3,348,000,000). It employs over 22,000 people worldwide. Airborne holds an 18.82 % market share of the overnight air market. Airborne delivered approximately 356 million domestic parcels in 2002.

22. Before the Airborne acquisition, DHL already offered the world's most extensive international parcel delivery network, with service to 120,000 destinations in more than 220 countries worldwide. However, although DHL already had the leading market share in international express delivery outside the U.S., before the Airborne acquisition, DHL did not have a major share of the U.S. air overnight domestic market.

23. The acquisition of Airborne's ground operations dramatically changed this situation. The integration of DHL's market leading position in international express delivery, logistics and outbound express delivery services in the United States with Airborne's selection of domestic shipping options immediately created a strong new competitor in the U.S. express delivery market. It brought the benefits of intensified competition and enhanced service to millions of small and medium-sized businesses that purchase expedited door-to-door delivery of small

packages and documents.

24. Airborne offers total distribution solutions by providing its customers with time-sensitive delivery of documents, letters, small packages, and freight to virtually every U.S. Zip code and more than 200 foreign countries. As a result of the Airborne acquisition, DHL's customers can now select from a variety of services including same-day, next-morning, next-afternoon or second-day delivery, airfreight, ocean service, and logistics management.

25. The integration of Airborne with DHL, Euro Express and Danmar Lines Ltd. now allows DHL to offer the world's broadest range of single source express delivery and logistics products, from courier and express services to heavy tonnage forwarding and tailor made logistics solutions.

26. DHL also recognizes that in order to maintain its position, it must constantly invest in maintaining and expanding its own infrastructure. For example, to assure the success of the Airborne acquisition, DHL will make a substantial long-term marketing investment to build an even stronger competitor that is able to provide increased value for its U.S. customers. Other recent DHL. infrastructure investments in 2001 and 2002 have included:

- Investment in the European Financial Shared Services (EFSS) building in The Netherlands.
- Investment in new Stations in the UK and in Germany.
- Investment in distribution and service centers in Japan and in Hong Kong.
- In 2002, investments totaling nearly 83.76 billion were made in the Express Division.
- In Germany the company strengthened its internal infrastructure with the replacement of its vehicle fleet.
- Other investments focused on renewing automatic sorting systems in individual hubs and depots, as well as building new terminals in the Benelux countries and Spain.
- Completion of four new terminals in Spain to replace current leased facilities is expected by the end of 2004.
- In October 2002 a new logistics center opened in Tokyo, with total space of approximately 18,000 square meters. It includes state-of-the-art, cutting edge technology and is the largest and most modern facilities of its kind in Japan.
- As of January 31, 2003, DHL acquired the Canadian logistics arm of Mayne Group, Ltd., Australia, Mayne Group Canada, thereby systematically strengthening its position in the North American market.

27. Danmar Lines Ltd.'s proposed exemption, if granted, not only to Danmar Lines Ltd., but also to other financially responsible NVOs that might apply for a similar exemption, would be beneficial to U.S. commerce and would increase competition. Confidential contracts would result in better pricing opportunities for shippers because, with increased cargo volume commitments from its shippers, Danmar Lines Ltd. would be able to negotiate more favorable rates and terms with VOCCs. This would result in more competitive pricing and more advantageous service packages for shippers of all sizes.

28, All the justifying rationale relating to the enhancement of commerce resulting from the establishment of confidential service contracts that was considered by Congress in structuring OSRA would apply equally with respect to Danmar Lines Ltd. Shippers would obtain exactly the same benefits, if Danmar Lines Ltd. is exempted from tariff filing and given the right to enter confidential service contracts. Therefore, it would benefit shippers and ocean commerce in general. This was demonstrated by the rush of shippers to specially tailored service contracts immediately following the initial implementation of OSRA. Confidential service contracts have created greater flexibility in pricing policy and shippers have, without fail, identified entering confidential contracts as beneficial to them and commerce in general.

29. Shippers no longer search tariffs (whether VOCC or NVO) for individual ocean rate quotes. In fact, I cannot recall receiving a single telephone call during 2003 in which a shipper requested a separate rate quote for the ocean transportation segment of a cargo move. Shippers want integrated transportation packages, covering all of their logistics needs, at rates tailored to their individualized shipping requirements.

30. The Federal Maritime Commission in its September, 2001 Study, "The Impact of the Shipping Reform Act of 1998" ("FMC OSRA Report") concluded:

> Overall, the responses reflect that confidentiality under OSRA has provided shippers and carriers with the privacy they deem necessary to freely transact business. With the ability to shield such information, the contracting process is not constrained by the previous standards of meeting benchmarks and matching terms identically. Commercially sensitive issues and business requirements can be discussed more freely and accommodated more easily with specific contract terms. Carriers and shippers are more focused on achieving their individual rate and business objectives through contract negotiations

3 1. It would be beneficial to ocean commerce for DHL, including Danmar Lines Ltd. to have the ability to provide contract terms for a myriad of services, including ocean transportation, as a part of an all-inclusive logistics sourcing service for its shippers. Structuring complex logistics and transportation solutions in a tariff context, aside from the absence of confidentiality, would be strained and difficult, if not impossible. The efficiencies of confidential contracting for total transport packages, while not currently possible, are being aggressively promoted by shippers.

32. If the exemption is granted, DHL would be able to address shippers' demands for a single confidential agreement covering all aspects of DHL's global transportation and supply chain management services. DHL could provide unique, customized service packages to each shipper, charging rates appropriate to the specific needs and traffic of the shipper, including ocean components in a single comprehensive contract.

33. Shippers are demanding confidential treatment of ocean rates, and this demand cannot be achieved in a tariff-only context, because tariff provisions, in the absence of the requested exemption, must be published and publicly available. Additionally, confidential contracts with multiple components, including ocean rates and charges, result in customized packages of services at optimum pricing. These efficiencies are not possible in a tariff context.

Confidential contracts would give the parties additional flexibility in price adjustments if shipping conditions subsequently changed. With a committed volume of cargo from shippers, Danmar Lines Ltd. would be better situated to negotiate more favorable ocean rates and charges from VOCCs. This would result in more competitive pricing to shippers.

34. Granting the proposed exemption will not result in the substantial reduction of competition, because it would stimulate competition at many levels of the international transportation industry.

35. Danmar Lines Ltd. expects that the VOCC-owned logistics companies such as Maersk Logistics, APL Logistics, Crowley Logistics, and others will seek similar treatment as Danmar Lines Ltd. Most of the major VOCCs already own a corresponding 3PL. These companies will seek essentially the same regulatory treatment for basically the same reasons as Danmar Lines Ltd. They are under the same pressures to offer integrated transportation and logistics services to their customers under confidential contracts. As stated before, it is Danmar Lines Ltd.'s opinion, based on marketplace realities, that VOCC-owned logistics firms, operating as NVOs to provide the ocean component of their service, require the benefits of confidential contracts as much as any other 3PL company. The reason is simple. The services offered by a single VOCC, such as port-calls, sailing schedules, inland distribution networks and warehouse availability, to name just a few, are seldom sufficient to accommodate fully a shippers total logistics requirements. Note, for example, that the Maersk Logistics web-site prominently states:

> With Maersk Logistics operating as an Ocean Transportation Intermediary, a MSL Star express Bill of lading allows you access to almost 20 ocean carrier contracts.

36. In other words, the Maersk-SeaLand, Inc. ("MSL"), one of the world's largest and most respected vessel operators, relies only partially on its own vessel assets to provide its customers the delivery services offered by Maersk-Logistics. Maersk-Logistics requires access to the chartered and owned vessels of at least 19 other VOCCs to deliver its services. In this context Maersk-Logistics, and other similarly situated carrier-owned logistics companies are not "asset-based" 3PLs.

37. The traditional definition of "asset-based" 3PL, as expressed in a seminal article on 3PL firms which appeared in the ***American Shipper,*** Non-Asset-Based 3rd Partv Managers, April 1996, p. 52 is:

> Asset-based---Service firms affiliated with or owned by rail, truck air, barge, shipping, warehouse or forwarding firms **offering traditional service through their own, substantial fixed assets.** (Emphasis added).

38. Strictly speaking, the MSL connection to Maersk Logistics, in terms of how it provides its services, removes it from this definition. What is clearly important today, however, is the public perception that the Maersk Group of companies is financially behind Maersk-Logistics. However, it is clear that Maersk-Logistics is not primarily "offering traditional service through their own (MSL), substantial fixed assets." In my professional opinion, the real criterion to be applied in determining whether to allow carrier-owned logistics companies, or for that matter, any logistics company, including DHL, to enter confidential contracts with shippers should not be the vessels that it or its corporate parent owns or operates, because as noted, they are utilized only minimally by the logistics firm. Rather the true standard should be whether these firms, and their parents, are reliable and financially responsible. The query should be: "How will shippers fare in terms of risk exposure in dealing with these logistics companies, regardless of their pedigree?" The main concern

should focus on whether the NVOs and logistics providers are: a) adding real value to their services, and b) whether they are financially stable in dealing with shippers.

39. It is a well-known fact that most VOCCs do not actually own the vessels they operate. Title to the vessels is typically held in the name of an owner trustee, acting for the benefit of the entity that provides the VOCC with its vessel financing. Also, as discussed above, cargo booked by one VOCC is frequently transported on vessels operated by another VOCC under a slot charter or similar arrangement. The important concern is whether the logistics companies are financially reliable.

40. Therefore, it stands to reason that allowing financially stable logistics companies, including those owned by VOCCs, the ability to enter confidential contracts will increase rather than decrease competition. Competition would increase between VOCCs (and their affiliated logistics firms) and financially responsible integrated logistics services providers, such as DHL, including Danmar Lines Ltd. This, in effect, extends the market reach of those VOCCs owning logistics companies, but it also brings greater competition to bear as companies such as UPS and DHL are allowed to participate in this competitive endeavor by offering confidential contracts to their shippers for a variety of services, including ocean transportation.

41. The proposed exemption would increase competition among other NVOs, especially those already committed to adding value to their ocean transportation transactions. As noted above, there is a myriad of services that logistics companies provide to shippers. Ocean transport is just one of those services. There are currently many NVOs that have made costly infrastructure and personnel investments, especially in the IT area. These NVOs would be interested in pursuing, and I believe will pursue, the same tariff tiling exemption that is being

sought by Danmar Lines Ltd. These financially stable and forward-looking OTI organizations are competing by expanding the range of services offered to their customers. Danmar Lines Ltd. believes that many of these companies deserve the same treatment DHL is requesting, provided that they can demonstrate, appropriate financial stability.

42. In my opinion, there will be a tendency for that handful of NVOCCs that do not currently offer the all-inclusive services provided by integrated logistics, companies, to become more, competitive by giving incentives to enhance their logistics capabilities. This will further help to create more competition.

Respectfully submitted,

Philipp C. Rathgeb
Vice President,
Ocean Freight North America
Danzas Corporation
d/b/a Danmar Lines Ltd., Danzas AEI Ocean Services and DHL Danzas Air and Ocean Danmar Lines Ltd.

Dated: January 22, 2004

VERIFICATION

I hereby certify under penalty of perjury that the forgoing is true and correct to the best of my knowledge, information and belief.

Philipp C. Rathgeb

Dated: January 22, 2004

EXHIBIT 1

Company Report 2002

Strategy +++ Stock +++ Group Management Report +++ Corporate Divisions

Solutions

tailored to our customers' needs

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

EXPRESS Corporate Division

Our solution: All global services under a sing

The EXPRESS Corporate Division provides domestic and international parcel and express delivery services as well as cross-border mail transport. Deutsche Post World Net is one of the leading international providers in both of these areas. At the end of 2002, we increased our interest in DHL International Limited (DHL), the global market leader for express business, to 100%. We have now assumed full management control, and are increasingly leveraging market- and cost-side synergies. For the first time ever, the EXPRESS Corporate Division was responsible for the largest share of total revenue: around 30% in fiscal year 2002.

EXPRESS Corporate Division[1]

		2001	2002	Change in %
Total revenue	in €m	6,421	12,489	94.5
Profit from operating activities (EBITA)	in €m	176	243	38.1
Return on sales[2]	in %	2.7	1.9	
Investments	in €m	325[3]	3,758	1,056.6
Employees calculated as FTEs, excluding trainees	as of Dec. 31	47,456	107,453	126.4

1) For a detailed explanation of the Corporate Division's financial development, please see the "Business Developments" section of the Group Management Report, page 32f.
2) EBITA / revenue
3) Restatement of prior-period amounts due to reallocation of the retail outlets (see item 9 in the Notes)

Single umbrella brand for express services

In the year under review, the EXPRESS Corporate Division consisted of four Business Divisions: Express Germany and Express Europe offer high-performance products and perfect service for parcel and express transportation in Germany and more than 20 European countries. Global Mail provides cross-border mail services with direct links to more than 140 countries around the world. DHL's global courier and express dispatch activities are grouped together in the Worldwide Express Business Division.

le, strong name

DHL was included in consolidation for the first time in the year under review. Its integration gives us the opportunity to leverage additional synergies. In order to achieve this, we will combine all of our express and logistics activities under the DHL brand name in fiscal year 2003. This decision reflects the brand's extremely high profile, and adds the vital factor of internationalism to our traditional strengths of dependability, reliability and reputability. DHL has been active on the market for time-critical deliveries for more than 30 years and operates a global network of bases in more than 220 countries and territories.

We will harmonize our previously independent cross-border networks in Europe, firstly in individual countries and then, in a second phase, within Europe as a whole. Our goal is to establish an integrated distribution network which optimally combines overland and air transportation across the whole of Europe. We have already demonstrated the success of such integration with Euro Express, which is now the largest ground-based parcel distribution network in Europe.

Our reporting structure will remain largely unaffected by these integration measures. The most significant change affects the Eurocargo Business Unit, which will be transferred from the LOGISTICS Corporate Division to the EXPRESS Corporate Division as of January 1, 2003.

Concentration heightens competition

With revenues totaling €10.9 billion (2001), the German courier, express and parcel services (CEP) market is the largest in Europe. Our comprehensive service offering makes us the most important single provider on this market (see diagram below). Competition in the business customers segment remains more intensive than for private customers. In this segment, therefore, we are focusing on the strategic advantages of being a global player: our comprehensive service offering enables us to meet the requirements of international groups such as Bosch, HP or Philips.

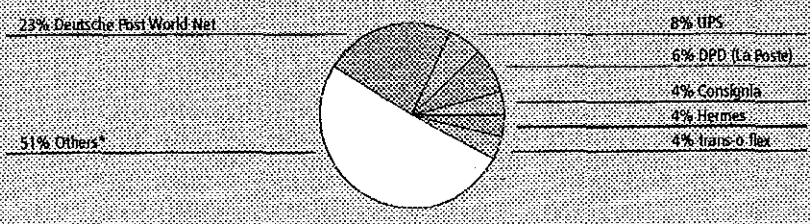
In Europe, the CEP market is still highly concentrated (see diagram on page 63). Deutsche Post World Net has consolidated its position as the leading provider in this field, not least through the integration of DHL. In 2001, we once again occupied the top spot with a 16% share of a European market that is worth €34 billion overall.

The market volume for cross-border mail amounted to €12 billion in 2001 (see diagram on page 64). The market was impacted by two factors during the fiscal year. Firstly, it continued to suffer from the ongoing stagnation of the global economy. Secondly, the terrorist attacks on September 11, 2001 led to rising fuel prices and higher security premiums. This, in turn, resulted in rising transport costs, which could only partially be passed on to customers.

There has also been an increase in concentration on this market, which has led to a heightened level of competition. Alliances, mergers and acquisitions have created new players that can act globally and employ aggressive sales policies to shape the market. The customer side is also experiencing increasing concentration, with a smaller and smaller number of major customers controlling the press distribution market, for example. With our market share of 14%, we were able to expand our position as one of the leading global providers of cross-border mail services in 2001.

The market for air-based global courier and express business recorded below-average growth in the US and Europe in the year under review, whereas the Asia-Pacific region still has substantial growth potential.

German CEP market 2001



Market volume: €10.9 billion

* Including TPG
Source: Data Monitor study (European Courier and Express Delivery Market 2001) and Deutsche Post AG

Increase in revenue due to **DHL** consolidation

In fiscal year 2002, total revenue for the EXPRESS Corporate Division rose by 94.5% to €12,489 million. This growth was primarily due to the first-time consolidation of DHL. On a comparable basis, revenue approximately matched the previous year's level.

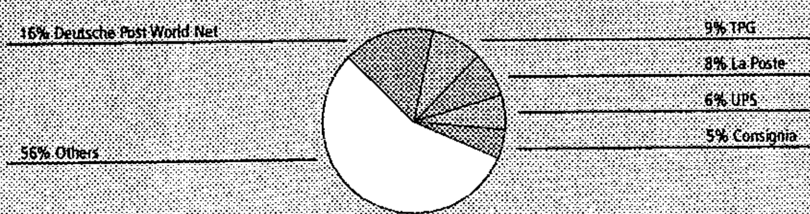
Revenue by Business Division

in €m	2001	2002	Change in %
Express Germany	2,795	2,796	0.0
Express Europe	2,054	1,941	-5.5
Global Mail	1,315	1,239	-5.8
Worldwide Express	–	6,162	
Internal revenue	257	351	36.6
Total	6,421	12,489	94.5

In the Express Germany Business Division, we succeeded in increasing volumes, while revenue, at 62,796 million, remained stable as compared to the previous year (62,795 million). The retail outlet customer segment profited among other things from the continuing growth of Internet auction houses, such as eBay.

Revenue in the Express Europe Business Division fell year-on-year from €2,054 million to €1,941 million. This reflects a one-time effect that arose in 2001 doe to a change in the Securicor group's fiscal year. In 2001, the end of the group's fiscal year was changed from September 30 to December 31, which meant that the results for 2001 contained revenue generated over 15 months instead of 12. In fiscal year 2002, the companies included in consolidation changed: the Spanish company Guipuzcoana Euro Express was fully consolidated for the first time as from October after we increased our holding from 49% to 51%. At the same time, however, several smaller business units that were transferred to the LOGISTICS Corporate Division at the beginning of the year are no longer included in consolidation. Positive revenue effects from operations resulted from the increase in dispatch volumes at Euro Express in Italy, Spain and Portugal.

European* CEP market 2001



Market volume: €34 billion. Total European market volume: €38.3 billion

* Belgium, France, Germany, Italy, the Netherlands, Spain and the UK
Source: Deutsche Post AG

Our Global Mail Business Division recorded a year-on-year drop in revenue of 5.8% to €1,239 million. While cross-border mail bound for Germany continues to fall, we succeeded in increasing Infopost (addressed advertising mailings) dispatch volumes and revenue from foreign customers. To help us better meet the requirements of this target group, we bundled our international mail business activities at the beginning of the year: Deutsche Post Global Mail took over the previous DHL product WorldMail and has since been responsible for processing these deliveries using its own network. This has significantly boosted our international market position in this area.

In 2002, the Worldwide Express Business Division contributed €6,162 million to consolidated revenue. Thanks to our global network, we were able to offset poor market conditions, especially in the United States, with positive developments in the Asia-Pacific region in particular.

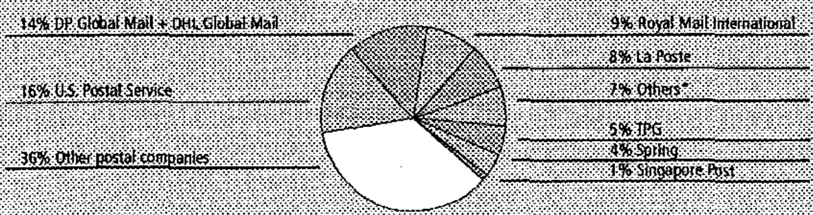
Increase in earnings

In fiscal year 2002, the EXPRESS Corporate Division generated a profit from operating activities (EBITA) of €243 million, representing a return on sales of 1.9%. For detailed information on earnings development, please see the "Business Developments" section of the Group Management Report, page 33.

Strengthening our global market position

In the year under review, investments totaling €3,759 million were made in the EXPRESS Corporate Division. In the Express Germany Business Division, we pressed ahead with the replacement of our vehicle fleet. Investments in the Express Europe Business Division focused on renewing automatic sorting systems in individual hubs and depots, as well as building new terminals in the Benelux countries and Spain. We expect to complete four new terminals in Spain and replace current leasing arrangements by the end of 2004. In the year under review, DHL took further steps toward renewing its aircraft fleet by ordering 34 Boeing 757 aircraft. In addition, a major single investment in the Worldwide Express Business Division related to our new express logistics center in Tokyo, which opened in October 2002. Total space of around 18,000m² and cutting-edge technology make this center the largest and most modern of its kind in Japan. With it, DHL can now further enhance the quality of its services for customers in the Asia-Pacific region and strengthen its position in this growing market.

Global cross-border mail market in 2001



Market volume: €12 billion.

* Others: Mercury 1%, UK consolidators 2%, US consolidators 2%, others 2%
Source: UPU Statistics 2001, Deutsche Post AG

As of January 31, 2003, DHL acquired the Canadian logistics arm of Mayne Group, Ltd., Australia, Mayne Group Canada, thereby systematically strengthening its position in the North American market for ground-based express delivery.

Quality and flexibility for our **customers**

In globalized markets, the winners are those players who can act quickly and reliably. Deutsche Post World Net again had among the fastest mail transit times within Europe according to a study of international companies carried out by UNEX: over the last few years, we have reduced the average transit time for letters by around one day to 2.2 days.

UNEX (Unipost External Monitoring System), commissioned by the International Post Corporation, measures transit times for cross-border priority mail items in Europe from the time they are handed over to the service provider to their delivery.

Our PACKSTATION delivery service enables us to meet our customers' demands for a flexible system for collecting deliveries; recipients of parcels can now decide for themselves where they would like to have them delivered. Business customers making use of this service now include Deutsche Telekom, Profectis – Germany's largest electrical customer service operation for the retail trade – and Roche-Diagnostic. In addition, we have expanded our mail order services to include specific industry solutions and bundled them in our own competence center.

Outlook

Our aim is to generate both volume growth and above-average profitability on the German and European CEP markets on the strength of our superior quality and services. Structural improvements within the Group will contribute to this significantly: by merging networks in Europe that previously operated in parallel to one another, we will substantially improve our performance in the express and logistics business.

To achieve this, we will be taking the following measures: we will harmonize and concentrate our product portfolio under the DHL brand name. This will serve to simplify our internal processes, give our marketing and sales activities greater focus, and increase the transparency of our offerings for customers. On the cost side, we will bundle our purchasing power, relocate the Deutsche Post Euro Express and Danzas administrative centers to the DHL site in Brussels, and merge our 18 existing regional data centers to create three or four global ones. In this way, we will put the DHL brand at the heart of our global express and logistics business.

In addition, we intend to open further sales offices for cross-border mail in Europe, a segment where we want to be the number one global player.

LOGISTICS Corporate Division

Our solution: One port of call for all logistics

Deutsche Post World Net's LOGISTICS Corporate Division implements complex logistics solutions for customers all around the world. We recognized at an early stage that, given the highly fragmented nature of the logistics market, only globally active providers offering a wide range of services could survive. Consequently, we acquired the Danzas group in 1999, thereby laying the foundations for the Group's logistics activities. Danzas boasts an international logistics platform with high-performance IT systems. In 2002, the LOGISTICS Corporate Division contributed around 22% of consolidated revenue. By bringing together our Group-wide express and logistics services under the DHL brand name, we will be able to leverage existing growth potential even more efficiently in future.

LOGISTICS Corporate Division[1]

		2001	2002	Change in %
Total revenue	in €m	9,153	9,152	0.0
Profit from operating activities (EBITA)	in €m	159	224	40.9
Return on sales[2]	in %	1.7	2.4	
Investments	in €m	448	381	-15.0
Employees calculated as FTEs, excluding trainees	as of Dec. 31	45,036	45,250	0.5

1) For a detailed explanation of the Corporate Division's financial development, please see the "Business Developments" section of the Group Management Report, page 33
2) EBITA / revenue

One-stop global logistics

In the LOGISTICS Corporate Division, we aim to meet the growing demand among high-quality goods manufacturers for comprehensive, one-stop logistics services. The Solutions Business Unit takes over the management of the entire supply chain, from the procurement, storage and packaging of goods, right through to invoicing and order processing; we also ensure that information and goods flows are tightly interlinked. Our expertise is focused on selected industry sectors: automotive, pharma/

services

healthcare, electronics/telecommunication, fast moving consumer goods, and textiles.

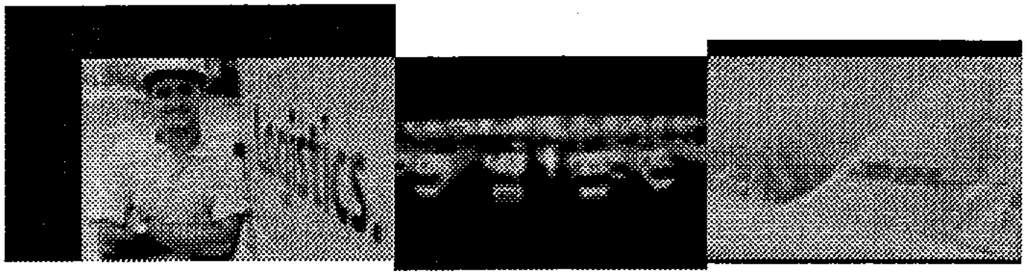
Fast Moving Consumer Goods: consumer goods required on a day-to-day basis which must be shipped quickly, such as food, drinks, and cleaning materials.

The air and ocean freight activities of the Intercontinental Business Unit connect all of the world's commercial centers. We do not maintain our own air and ocean fleet; instead, we buy loading space and charter capacity as required. Integrated value added services for coordinating and monitoring goods flows are becoming increasingly important. We have also been successful in the area of complex project shipping for a number of years, with a particular focus on industrial and energy projects.

The services provided by the Eurocargo Business Unit cover general domestic and European cargo traffic, full loads carried by road and rail, and specialties such as trade fair logistics. All in all, we have 180 transshipment centers across Europe, which we intend to incorporate within an integrated European distribution network as part of the Group-wide bundling of express and logistics activities. In order to implement this quickly and efficiently, Eurocargo will be transferred from the LOGISTICS Corporate Division to the EXPRESS Corporate Division effective from January 1, 2003.

Outsourcing of logistics services offers potential

The market for logistics services has changed in recent years. Industry has started to produce and sell its goods in more and more countries around the world. The complexity of goods flows is increasing – and so, too, are requirements for workflow management. If companies were to organize their own logistics activities, this would



mean substantial investment using funds which could be better employed for strengthening their core business. As a result, a growing number of companies are coming to the conclusion that outsourcing their logistics services is the right solution for them.

Deutsche Post World Net is benefiting from this trend. We have developed IT systems to monitor goods flows at all times, manage the flow of information, and incorporate all of the units involved in the logistics chain from procurement to distribution. Thanks to this special expertise and the leveraging of synergies within the Group, we were able to further strengthen our position in the various segments of the logistics market in 2002.

Our position on the highly fragmented market for contract logistics – which we define as the granting of longer-term logistics contracts as part of outsourcing – is stable. However, growth in this market has been slowed for the time being by the ongoing weakness of the economy and the consumer reluctance this has triggered, particularly in Europe.

This also applied to the air freight market; in the first half of 2002, demand for volume fell, leading to overcapacity. The weak economic situation also saw a certain shift in customer demand from air freight to the cheaper alternative, ocean freight. Thanks to our leadership on the air freight market we benefited directly from the recovery in transportation volumes in the second half of the year. Viewed over the year as a whole, the market for ocean freight developed more positively than in 2001.

The market for European overland transport also suffered from weak demand – particularly in the key German market – and increased pressure on margins.

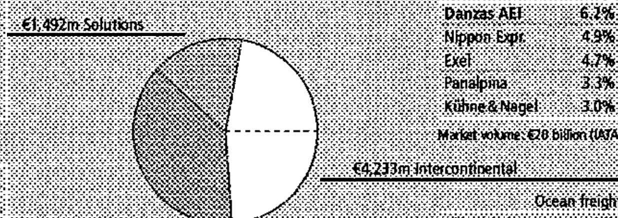
Danzas' market share *

Exel	2.8%
TNT Logistics	2.4%
Tibbett & Britten	1.8%
Ryder	1.2%
Hays Distributions	1.1%
Danzas Solutions	1.1%
UPS Logistics	1.1%

Market volume: €130 billion

Danzas Eurocargo	5.6%
Schenker-BTL	5.6%
Geodis	3.4%
DSV	3.0%
Dachser	2.5%
ABX	2.5%

Market volume: €59 billion



Air freight	
Danzas AEI	6.2%
Nippon Expr.	4.9%
Exel	4.7%
Panalpina	3.3%
Kühne & Nagel	3.0%

Market volume: €20 billion (IATA)

Ocean freight	
Kühne & Nagel	5.9%
Danzas AEI	5.1%
Schenker	3.3%
Panalpina	3.3%
Expeditors	1.8%

Market volume for forwarding:
TEU15 million
(twenty-foot equivalent units)

* Based on the figures for fiscal year 2001
Source: Logistik 2000, IATA, DKWR, Drewry Container Market Review, and Danzas

Revenue remains stable

Overall, the LOGISTICS Corporate Division reinforced its position in 2002, primarily through acquisitions. Lower freight prices and the weakness of the US dollar, which hit the Intercontinental Business Unit particularly hard, could only be partially offset by volume growth. All in all, revenue in the Corporate Division remained stable year-on-year at €9,152 million.

Revenue by Business Unit

in €m	2001	2002	Change in %
Solutions	1,468	1,492	1.6
Intercontinental	4,390	4,233	-3.6
Eurocargo	3,295	3,427	4.0
Total	**9,153**	**9,152**	**0.0**

In the Solutions Business Unit, we won a number of major outsourcing contracts and increased revenue by 1.6% to €1,492 million, as the following table shows:

Solutions: revenue by sector

in €m	2001	2002	Change in %
Automotive	99	92	-7.6
Pharma/Healthcare	68	65	-4.4
Electronics/Telecommunication	487	502	3.1
Fast moving consumer goods	543	551	1.5
Textiles/Fashion	226	235	4.0
Other	45	47	4.4
Total	**1,468**	**1,492**	**1.6**

Revenue in the Intercontinental Business Unit fell year-on-year from €4,390 million to €4,233 million. Although freight volumes picked up over the course of the year, this was not enough to fully offset the impact of low prices and unfavorable exchange rates.

In the Eurocargo Business Unit, the first-time full consolidation of Kelpo Kuljetus and the first-time consolidation of the Cargoplan/Cargoline group, as well as the incorporation of a number of smaller business units from the EXPRESS Corporate Division had a positive effect on business development. In the year under review, the Business Unit generated an increase in revenue of 4.0% to €3,427 million.

Strong increase in profits

Profit from operating activities (EBITA) grew at a higher rate than revenue in fiscal year 2002, from €159 million to €224 million. In line with planning, we further increased the return on sales from 1.7% to 2.4%. For further information on earnings development, please see the "Business Developments" section of the Group Management Report, page 33.

The integration of the acquisitions made in recent years also had a positive effect on the earnings and cost situation. Our work in this area is bearing fruit: the companies which we acquired in 2001 and 2002, whose activities are primarily local in nature, now form a concrete part of our global network. These companies previously worked exclusively for Air Express International (AEI), a leading air freight service provider which we took over in 2000. The more or less complete integration of these units has served to successfully complement and strengthen our Intercontinental Business Unit.

Full load transport: complete loads are transported between points which are specified by the customer.

Consolidated loads: individual shipments transported overland, both domestically and internationally, are collected at warehouses and consolidated into complete loads. Such loads are always transported between two terminals.

Strategic investment in high-performance technology

In 2002, investments decreased by 15.0% to €381 million. They were primarily channeled into the development of specific IT systems for logistics in order to safeguard one of our major competitive advantages. In addition, we expanded our activities with a number of smaller units.

Eurocargo added full load transport to its European network for consolidated loads. We also improved network management in this area by employing new technologies.

Individual customer commitment

We are expanding our customer contact management activities all the time. For global companies with comprehensive requirements, we are increasingly employing specialist teams which can offer our customers exclusive strategic and operational support.

We are meeting the increasing demand for sector-specific supply chain management solutions by developing best practice models for selected sectors. We have introduced cross-divisional conferences for various sectors in order to pass on knowledge within the Group and promote its exchange with external experts.

We are also expanding our service offering in order to meet the demands of the market. In 2002, for example, we entered into an alliance with SPAN International for the electronics/telecommunication and automotive sectors, allowing us to offer highly specialized solutions for manufacturing supply.

NVOCC (Non-Vessel Operating Common Carrier): a transport company that carries goods by sea in its own name, and generally also issues its own bills of lading, but does not own any shipping space.

We were able to fill strategic gaps in our global network. As well as strengthening our market position in Eastern Europe with the integration of the Cargoplan/Cargoline group, we experienced considerable success in the Chinese growth market, where Deutsche Post World Net is one of the few international logistics providers with A licenses and certification to operate as an NVOCC. This means that we are allowed to exercise direct control over all logistics and transport services we perform in China.

Outlook

We expect to see new revenue and income potential in the Solutions Business Unit, as manufacturers and retailers in most sectors of industry are increasingly focusing on their own core activities. This means that parts of the logistics supply chain will be outsourced to service providers to an even greater extent. Since procurement, production and sales are all becoming increasingly global in their nature, the demand is for logistics providers who can offer their customers value added services and also follow them into new markets. Our focus on key sectors such as automotive, textiles / fashion and electronics / telecommunication allows us to offer our customers best-practice solutions; at the same time, by bundling our express and logistics activities, we are also able to provide them with global logistics solutions on an even wider scale than before.

We are forecasting that ocean freight volumes will increase at a higher rate than global GDP. We also expect prices to increase as against fiscal year 2002. In the light of the escalating conflict in Iraq, it is difficult to make estimates of future price and volume trends on the air freight market. For the time being, we expect volumes to remain essentially unchanged, with the possibility of a slight increase in the second half of the year.

In terms of individual regions, we expect the further expansion of activities in the Asian region in particular to provide new momentum for both ocean and air freight. China and India are the particularly promising growth markets in this region. In our opinion, our strong positioning gives us every opportunity to expand our overall market position. At the start of 2003, for example, we formed a joint venture in India in cooperation with Lemuir, which allows us to offer air and ocean freight services, as well as warehousing and domestic distribution, to customers across the whole of India.

In the Eurocargo Business Unit, which will be included in the EXPRESS Corporate Division for reporting purposes from 2003, we believe that there is growth potential in the area of road and rail transportation to and from Eastern Europe. However, forecasts for Western Europe are rather muted; we expect the key German market in particular to stagnate.

All in all, customer requirements for overland transportation are also increasing. As well as fast service, customers are looking for providers who can offer IT expertise, an international presence, and the ability to help them with planning and designing logistics processes. We consider ourselves to be well-equipped to meet these demands in conjunction with the other Group units. We are aiming to slightly outperform the market in 2003 in terms of overall growth.

Financial Report 2002

Income Statement +++ Balance Sheet +++ Cash Flow Statement +++ Notes

Achievements

that convince our shareholders

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

Segment reporting

Segments by Corporate Division

in €m	MAIL		EXPRESS		LOGISTICS		FINANCIAL SERVICES		Other/ Consolidation		Group	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
External revenue	10,280	10,169	6,163	12,138	8,938	8,955	7,932 1)	7,869	66 1)	124	33,379	39,255
Internal revenue	1,427	1,497	258	351	215	197	944 1)	1,003	-2,844 1)	-3,048	0	0
Total revenue	11,707	11,666	6,421	12,489	9,153	9,152	8,876 1)	8,872	-2,778 1)	-2,924	33,379	39,255
Profit or loss from operating activities before goodwill amortization (EBITA)	1,960	1,658	176	243	159	224	522	621	-270 3)	-325	2,547 3)	2,421
Goodwill amortization	2	2	50	322	117	124	2	1	0	0	171	449
Profit or loss from operating activities (EBIT)	1,958	1,656	126	-79	42	100	520	620	-270 3)	-325	2,376 3)	1,972
Net income from associates	0	0	-141	-1	3	4	0	0	8	-4	-130	-1
Segment assets	4,414 1)	4,311	3,954 1)	8,651	5,330	4,601	137,051 1)	140,135	238 1)	-238	150,987	157,460
Investments in associates	0	0	1,082	104	26	22	0	0	0	0	1,108	126
Segment liabilities	1,020 1)	1,077	901 1)	2,043	2,097	1,602	133,479 1)	133,776	468 1)	1,030	137,965	139,478
Segment investments	369 1)	342	325 1)	3,759	448	381	360 1)	377	25 1)	-27	1,527	4,832
Depreciation, amortization and write-downs	518	394	288	833	255	271	125	277	49	77	1,235	1,852
Other non-cash expenses	115	216	45	168	90	52	197 1)	283	364 1)	1,183	811	1,902
Employees by segment 2)	143,847	137,617	47,774	105,767	44,904	46,784	36,802 1)	35,583	11,189 1)	10,668	284,516	337,419

1) Prior-period amounts restated due to the reallocation of retail outlet operations from Other/Consolidation to the FINANCIAL SERVICES segment
2) Number of employees calculated as averages for fiscal years 2002 and 2001 (FTEs)
3) Prior-period amounts restated (see note 7)

Segments by region

in €m	Germany		Europe excl. Germany		Americas		Asia/Pacific		Other regions		Group	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
External revenue	22,398	23,068	8,188	10,276	1,680	3,522	915	2,047	198	342	33,379	39,255
Segment assets	128,281	136,421	17,397	14,311	5,048	5,518	205	897	56	313	150,987	157,460
Segment investments	1,028	946	431	2,558	49	835	14	366	5	127	1,527	4,832

9.1 Segment reporting disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). The presentation of specific data from the consolidated financial statements is classified by Corporate Divisions and regions, based on the Group's internal reporting and organizational structure. Segment reporting is designed to enable a transparent view of the earnings power, risks and rewards, net assets and financial position of the individual components of the Group's activities.

Reflecting the predominant organizational structure of the Group, the primary reporting format is based on the Group's Corporate Divisions. Deutsche Post World Net distinguishes between the following Corporate Divisions:

MAIL

In addition to the transport and delivery of written communications, the MAIL Corporate Division increasingly positions itself as an end-to-end service provider for the management of written communications.

EXPRESS

The EXPRESS Corporate Division is home to Deutsche Post AG's national and international parcels and express activities. The Global Mail Business Division is also allocated to the EXPRESS Corporate Division. EXPRESS includes DHL International with its 199 companies.

EXHIBIT 2

Interim Report January 1 to June 30, 2003

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

The Corporate Divisions

The segments at a glance

- Lowered mail prices and one-time other operating income recorded in H1/2002 led to an expected drop in revenue and profit in the MAIL Corporate Division.
- Despite substantial negative currency effects, revenue in the EXPRESS Corporate Division increased – profit from operating activities (EBITA) is showing strong growth.
- At €77 million, profit from operating activities (EBITA) in the LOGISTICS Corporate Division is up 14.9% year-on-year.
- Additional income from Postbank operations has, to a large extent, already offset the discontinuation of the amortization of Postbank's negative goodwill in the FINANCIAL SERVICES Corporate Division in 2003.

Segments by Corporate Division for H1

in €m	MAIL H1 2002	MAIL H1 2003	EXPRESS[1] H1 2002	EXPRESS[1] H1 2003	LOGISTICS[1] H1 2002	LOGISTICS[1] H1 2003	FINANCIAL SERVICES[2] H1 2002	FINANCIAL SERVICES[2] H1 2003	Other/Consolidation[2] H1 2002	Other/Consolidation[2] H1 2003	Group H1 2002	Group H1 2003
External revenue	5,094	5,022	7,518	7,663	2,733	2,237	3,948	3,215	58	58	19,351	19,195
Internal revenue	723	678	130	189	0	34	494	446	–1,347	–1,347	0	0
Total revenue	5,817	5,700	7,648	7,852	2,733	2,271	4,442	4,161	–1,289	–1,289	19,351	19,195
Profit or loss from operating activities before goodwill amortization (EBITA)	1,246 [3]	1,106	108 [3]	168	67	77	276 [3]	232	–124 [3]	–114	1,573 [3]	1,469
Goodwill amortization	1	2	70	89	48	45	0	0	0	0	119	136
Profit or loss from operating activities after goodwill amortization (EBIT)	1,245 [3]	1,104	38 [3]	79	19	32	276 [3]	232	–124 [3]	–114	1,454 [3]	1,333
Net income from associates	0	0	3	–22	2	0	0	0	–4	0	1	–22
Segment assets[4]	4,311	4,003	10,210	10,191	3,159	3,034	140,135	135,034	–355	–60	157,460	152,202
Investments in associates[4]	0	0	108	85	18	19	0	0	0	0	126	100
Segment liabilities including non-interest-bearing provisions[4,5]	1,523	1,372	3,291	3,318	1,080	1,092	133,861	127,968	1,560	801	141,315	134,551
Segment investments	122	94	2,321	613	114	162	173	77	–20	–9	2,710	937
Depreciation, amortization and write-downs	186	192	355	373	79	74	134	133	27	28	781	800
Other non-cash expenses	37	35	96	55	6	45	62	124	168	91	369	350
Employees[6]	137,617	133,019	122,823	124,459	30,728	31,684	35,583	33,975	10,668	10,237	337,419	333,384

1) Prior-period amounts restated: restructuring of EXPRESS and LOGISTICS Corporate Divisions
2) Prior-period amounts restated: reallocation of retail outlet operations from Other/Consolidation to the FINANCIAL SERVICES Corporate Division
3) Prior-period amounts restated: reclassification of interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs
4) Segment assets, investments in associates and segment liabilities are reported as of the balance sheet dates December 31, 2002 and June 30, 2003; the remaining items are reported for the periods ended June 30, 2002 and June 30, 2003
5) Prior-period amounts restated: segment liabilities include non-interest-bearing provisions as from fiscal year 2003
6) Number of employees calculated as averages for fiscal years 2002 and 2003 (FTEs)

Segments by region for H1

in €m	Germany H1 2002	Germany H1 2003	Europe excluding Germany H1 2002	Europe excluding Germany H1 2003	Americas H1 2002	Americas H1 2003	Asia/Pacific H1 2002	Asia/Pacific H1 2003	Other regions H1 2002	Other regions H1 2003	Group H1 2002	Group H1 2003
External revenue	11,627	11,420	4,941	4,973	1,609	1,739	980	873	194	190	19,351	19,195
Segment assets[1]	136,421	132,273	14,311	13,085	5,518	5,685	897	775	313	384	157,460	152,202
Segment investments	430	187	1,461	401	537	239	242	36	40	74	2,710	937

1) Segment assets are reported as of the balance sheet dates December 31, 2002 and June 30, 2003; the remaining items are reported for the periods ended June 30, 2002 and June 30, 2003

Segments by Corporate Division for Q2

in €m	MAIL Q2 2002	MAIL Q2 2003	EXPRESS[1] Q2 2002	EXPRESS[1] Q2 2003	LOGISTICS[1] Q2 2002	LOGISTICS[1] Q2 2003	FINANCIAL SERVICES[2] Q2 2002	FINANCIAL SERVICES[2] Q2 2003	Other/Consolidation[2] Q2 2002	Other/Consolidation[2] Q2 2003	Group Q2 2002	Group Q2 2003
External revenue	2,462	2,353	3,777	3,840	1,377	1,344	1,992	1,850	40	35	9,648	9,422
Internal revenue	350	330	67	77	0	33	230	232	–647	–672	0	0
Total revenue	2,812	2,683	3,844	3,917	1,377	1,377	2,222	2,082	–607	–637	9,648	9,422
Profit or loss from operating activities before goodwill amortization (EBITA)	468 [3]	349	65 [3]	87	39	36	140 [3]	114	–45 [3]	–68	667 [3]	518
Goodwill amortization	0	1	33	45	24	22	0	0	0	0	57	68
Profit or loss from operating activities after goodwill amortization (EBIT)	468 [3]	348	32 [3]	42	15	14	140 [3]	114	–45 [3]	–68	610 [3]	450
Net income from associates	0	0	–5	–22	2	0	0	0	–4	0	–7	–22
Segment investments	78	37	232	296	36	43	142	40	–30	–1	458	415
Depreciation, amortization and write-downs	95	97	176	189	39	37	69	67	15	14	394	404
Other non-cash expenses	–1	–15	65	31	1	26	18	76	101	41	184	159

1) Prior-period amounts restated: restructuring of EXPRESS and LOGISTICS Corporate Divisions
2) Prior-period amounts restated: reallocation of retail outlet operations from Other/Consolidation to the FINANCIAL SERVICES Corporate Division
3) Prior-period amounts restated: reclassification of interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs

Segments by region for Q2

in €m	Germany Q2 2002	Germany Q2 2003	Europe excluding Germany Q2 2002	Europe excluding Germany Q2 2003	Americas Q2 2002	Americas Q2 2003	Asia/Pacific Q2 2002	Asia/Pacific Q2 2003	Other regions Q2 2002	Other regions Q2 2003	Group Q2 2002	Group Q2 2003
External revenue	5,742	5,657	2,524	2,341	774	876	563	424	45	124	9,648	9,422
Segment investments	268	106	707	100	–582	114	72	24	–7	71	458	415

Direct Marketing (Deutsche Post AG share)

mail items (millions)	H1 2002	H1 2003	Change in %	Q2 2002	Q2 2003	Change in %
Infopost/Infobrief (addressed advertising mail)	2,661	2,635	–1.0	1,303	1,256	–3.6
Postwurfsendung/Postwurf Spezial (unaddressed/partly addressed advertising mail)	1,927	1,735	–10.0	843	781	–7.4
Total	4,588	4,370	–4.8	2,146	2,037	–5.1

The **Foreign Domestic International** Business Division, which we are reporting for the first time in fiscal year 2003, contributed €43 million to revenue in H1. The figures contain the revenues generated by our national mail business in the Netherlands and the UK.

We have consolidated our national and international activities in the area of value added services in our second new **Solutions International** Business Division. The operational units of this Business Division include PrintCom, as well as subsidiaries that were previously allocated to the national Business Divisions, including Deutsche Post In Haus Service GmbH and Merkur Systemhaus für Dialog-Kommunikation GmbH. This Business Division generated revenue of €98 million in the first half of 2003 (previous year: €97 million).

The **profit from operating activities (EBITA)** in the MAIL Corporate Division fell by €140 million to €1,106 million. We had expected this development in the traditionally weaker second quarter, and had taken it into account in the lower margin forecast for the year as a whole. It is mainly the result of one-time other operating income recorded in 2002 on the one hand, and the price cuts mentioned above on the other. We were able to partly compensate the latter. At 19.4%, the **return on sales** was therefore below the prior-year level of 21.4%.

EXPRESS Corporate Division

EXPRESS

		H1[1] 2002	H1 2003	Change in %	Q2[1] 2002	Q2 2003	Change in %
Total revenue	in €m	7,648	7,852	2.7	3,844	3,917	1.9
Profit from operating activities before goodwill amortization (EBITA)	in €m	108[2]	168	55.6	65[2]	87	33.8
Return on sales[3]	in %	1.4	2.1		1.7	2.2	

1) Prior-period amounts restated: restructuring of EXPRESS and LOGISTICS Corporate Divisions
2) Prior-period amounts restated: reclassification of interest cost on provisions for pensions and other interest-bearing provisions from EBITA to net finance costs
3) EBITA/revenue

The EXPRESS Corporate Division has had a new reporting structure since the beginning of 2003: our courier, express and parcel (CEP) activities are now broken down by region under the DHL umbrella brand. In addition, the Eurocargo Business Unit, which previously formed part of the LOGISTICS Corporate Division, has been incorporated into the new structure of the EXPRESS Corporate Division. The prior-period amounts were adjusted as necessary.

In H1/2003, the **revenue** generated by the EXPRESS Corporate Division increased by 2.7% year-on-year to €7,852 million (previous year: €7,648 million). Generally positive business developments were offset by losses attributable to exchange rate effects totaling €–445 million.

The **Europe** region generated revenue growth of 4.4% to €5,654 million (previous year: €5,415 million). In terms of operating activities, we increased revenues in what has always been a high-revenue region, in particular in Germany, with retail outlet customer products and "Europack National"; business on the Iberian peninsula also developed positively once again. Further growth came as a result of the first-time full consolidation of the Spanish company Guipuzcoana on October 1, 2002 and the Italian parcel company Casa di Spedizioni Ascoli S.p.A. on February 1, 2003.

Negative exchange rate effects in the USA and Latin America eroded the strong operating growth of the **Americas** region, which was achieved by selling higher-priced products in the USA, and also due to the positive effects from the acquisition of Loomis in Canada, which we consolidated fully for the first time on February 1, 2003. Revenue fell overall by *6.0% year-on-year to 8812 million* (previous year: €864 *million).*

The **Asia Pacific** region was also hit by negative exchange rate effects which eroded the positive business developments in China and Southeast Asia in particular. Overall, revenues fell by *1.6% in* H1/2003 to €547 million (previous *year:* €556 million).

The **Emerging Markets (EMA)** recorded growth in revenue of 11.4% in H1 to total €283 million (previous year: *6254* million). This means that the positive trend that emerged in the first few months of the year has actually accelerated. In the second quarter, this development was also helped by economic recovery in the Middle East following the end of the war in Iraq.

Revenue in the **Global Mail** Business Division in H1/ 2003 was hit by the currency effects mentioned above and the drop in shipment volumes in the USA, and fell *6.3% to* €625 *million* (previous year: €667 *million).*

Revenue in EXPRESS Corporate Division

in €m	H1 2002	H1 2003	Change in %	Q2 2002	Q2 2003	Change in %
Europe	5,415	5,654	4.4	2,703	2,797	3.5
Americas	864	812	–6.0	429	419	–2.3
Asia Pacific	556	547	–1.6	305	288	–5.6
Emerging Markets (EMA)	254	283	11.4	132	151	14.4
Global Mail	667	625	–6.3	318	294	–7.5
Reconciliation	–108	–69	–36.1	–43	–32	–25.6
Total	7,648	7,852	2.7	3,844	3,917	1.9

The increase in **profit from operating activities (EBITA),** which rose by *55.6% to* €168 *million* (previous year: €108 million), was again driven by the Europe region in particular. The **return on sales** was 2.1% in H1, compared with *1.4%* in the previous year.

LOGISTICS Corporate Division

LOGISTICS		H1[1] 2002	H1 2003	Change in %	Q2[1] 2002	Q2 2003	Change in %
Total revenue	in €m	2,733	2,771	1.4	1,377	1,377	0.0
Profit from operating activities before goodwill amortization (EBITA)	in €m	67	77	14.9	39	36	–7.7
Return on sales[2]	in %	2.5	2.8		2.8	2.6	

1) Prior-period amounts restated: restructuring of EXPRESS and LOGISTICS Corporate Divisions
2) EBITA/revenue

The LOGISTICS Corporate Division also has a new reporting structure: the former Eurocargo Business Unit was transferred to the EXPRESS Corporate Division at the start of the fiscal year. The prior-year figures were adjusted accordingly. Our air and ocean freight activities are now reported under the name "Danzas Air & Ocean".

In H1/2003, **revenue** increased by 1.4% to €2,771 million (previous year: €2,733 million). This growth is entirely attributable to the first quarter. In the second quarter, both of the Business Divisions were able to maintain the level of the prior-year period.

Revenue in the **Solutions** Business Division rose by 2.4% year-on-year to total €797 million (previous year: €778 million). We benefited from positive development with our customers in the electronics/telecommunications sector in particular. However, revenues for Q2 fell in the key automotive and fast moving consumer goods (FMCG) sectors, which are highly cyclical. This eroded the increases recorded at the beginning of the year.

In the **Danzas Air & Ocean** Business Division, we grew further operationally as a result of the rise in the air and ocean freight volumes handled. However, revenues in H1 grew by only 1.2% to €1,979 million (previous year: €1,955 million). The strong hike in the value of the euro produced substantial negative currency effects totaling €–201 million.

Revenue by Business Division in €m	H1 2002	H1 2003	Change in %	Q2 2002	Q2 2003	Change in %
Solutions	778	797	2.4	378	378	0.0
Danzas Air & Ocean	1,955	1,979	1.2	999	1,004	0.5
Reconciliation		–5			–5	
Total	2,733	2,771	1.4	1,377	1,377	0.0

At €77 million, **profit from operating activities (EBITA)** was up 14.9% on the prior-year amount (€67 million), as a result of the operating growth recorded in the Solutions Business Division. Correspondingly, the **return on sales** improved by 0.3% year-on-year to 2.8%.

Solutions: revenue by sector in €m	H1 2002	H1 2003	Change in %	Q2 2002	Q2 2003	Change in %
Automotive	47	47	0.0	25	18	–28.0
Pharma/Healthcare	32	33	3.1	18	19	5.6
Electronics/Telecom	287	304	5.9	141	155	9.9
Fast moving consumer goods	274	274	0.0	146	139	–4.8
Fashion	117	120	2.6	41	43	4.9
Other	21	19	–9.5	7	4	–42.9
Total	778	797	2.4	378	378	0.0

EXHIBIT 3

Table 1

World's top logistics and freight transport group

(Ranked by 2002 revenue, minimum $2 billion in annual revenue, in $million / *local currency*)

World rank/company	Main industry sectors	Country		Group revenue	operating profit	operating profit margin	Net profit
1. Deutsche Post/DHL/Danzas group (1)	Mail/forwarding/integrator/ banking	Germany	$	$40,891	$2,054	5.0%	$686
			euro	*39,255*	*1,972*		*659*
2. UPS	Integrator/logistics/forwarding	U.S.	$	$31,272	$4,096		$3,182
3. FedEx (2)	Integrator/logistics/forwarding	U.S.	$	$22,487	$1,471	6.5%	$830
4. Deutsche Bahn/Stinnes/Schenker (3)	Railroad/forwarding	Germany	$	$19,464	$39	0.2%	($487)
			euro	*18,685*	*37*		*($468)*
5. Nippon Express (10)	Trucking/forwarding/logistics	Japan	$	$12,824	$251	2.0%	$159
			Yen	*1,708,140*	*33,370*		*21,180*
6. Union Pacific	Railroad	U.S.	$	$12,491	$2,324	18.6%	$1,341
7. TPG/TNT group	Mail/integrator/logistics	Netherlands	$	$12,273	$1,102	9.0%	$624
			euro	*11,782*	*1,058*		*599*
8. A.P. Moller/Maersk group (4)	Shipping/logistics/ports	Denmark	$	$11,567	$426	3.7%	$59
			DKr	*82,588*	*3,045*		*419*
9. NYK (5)	Shipping/logistics	Japan	$	$10,393	$575	5.5%	$119
			Yen	*1,249,242*	*69,122*		*14,292*
10. BNSF	Railroad	U.S.	$	$8,979	$1,656	18.4%	$760
11. CSX	Railroad/shipping	U.S.	$	$8,152	$1,127	13.8%	$424
12. Mitsui O.S.K. Lines (5)	Shipping/logistics	Japan	$	$7,573	$377	5.0%	$122
			Yen	*910,288*	*45,356*		*14,709*
13. Exel	Forwarding/logistics	U.K.	$	$7,489	$303	4.0%	$189
			£	*4,643*	*188*		*117*
14. P&O group (6)	Shipping/ports/logistics	U.K.	$	$7,289	$195	2.7%	$290
			£	*4,519*	*121*		*180*
15. Kuehne & Nagel/USCO group	Forwarding/logistics	Switzerland	$	$6,289	$12	0.2%	$0
			CHF	*8,805*	*17*		*0*
16. Norfolk Southern	Railroad	U.S.	$	$6,270	$1,158	18.5%	$460
17. Bollore Investissement/Delmas/ SCAC group	Shipping/forwarding/trading	France	$	$5,700	$173	3.0%	$63
			euro	*5,472*	*166*		*60*
18. "K" Line (5)	Shipping/logistics	Japan	$	$5,264	$244	4.6%	$86
			Yen	*632,725*	*29,282*		*10,373*
19. Ryder System	Trucking/truck leasing/logistics	U.S.	$	$4,776	$176	3.7%	$94
20. CNF/Menlo group	Trucking/forwarding/logistics	U.S.	$	$4,762	$182	3.8%	$94
21. P&O Nedlloyd Container Line/ P&ONL Logistics(6)	Shipping/logistics	U.K.	$	$4,659	($235)	(5.0%)	($304)
22. Neptune Orient Lines/APL group	Shipping/logistics	Singapore	$	$4,642	($79)	(1.7%)	($330)
23. Panalpina	Forwarding/logistics	Switzerland	$	$4,549	$104	2.3%	$81
			CHF	*6,388*	*145*		*113*
24. Hays	Logistics/support services	U.K.	$	$3,960	$263	6.6%	$132
			£	*2,455*	*163*		*82*
25. Hapag-Lloyd group	Shipping/logistics/forwarding	Germany	$	$3,834	$236	6.0%	$149
			euro	*3,777*	*227*		*143*
26. Canadian National (7)	Railroad	Canada	$	$3,892	$936	24.0%	$510
			C$	*6,110*	*1,469*		*800*

World rank/company	Main industry sectors	Country		Group revenue	operating profit	operating profit margin	Net profit
27. Hyundai Merchant Marine	Shipping	South Korea	$	$3,857	($29)	(0.8%)	$119
			Won	*4,620,910*	*(34,321)*		*142,218*
28. Pittston/BAX Global group	Forwarding/security	U.S.	$	$3,777	$133	3.5%	$26
29. Hanjin Shipping	Shipping	South Korea	$	$3,775	$10	0.3%	$16
			Won	*4,522,000*	*11,700*		*18,800*
30. Geodis	Trucking/forwarding	France	$	$3,386	$53	1.6%	$2
			euro	*3,251*	*51*		*2*
31. Airborne (1)	Integrator	U.S.	$	$3,344	$58	1.7%	$15
32. C.H. Robinson	Trucking/logistics	U.S.	$	$3,294	$157	4.8%	$96
33. ABX Logistics	Trucking/forwarding	Belgium	$	$3,023	N/A	N/A	N/A
			euro	*2,902*			
34. Roadway (9)	Trucking	U.S.	$	$3,011	$92	3.1%	$39
35. CP Ships (8)	Shipping	Canada	$	$2,687	$85	3.2%	$52
36. Yellow Corp. (9)	Trucking	U.S.	$	$2,624	$47	1.8%	($94)
37. Schneider	Trucking/logistics	U.S.	$	$2,600	N/A	N/A	N/A
38. OOIL (parent of OOCL)	Shipping	Hong Kong	$	$2,458	$91	3.7%	$52
39. Tibbett & Britten	Logistics	U.K.	$	$2,447	$31	1.3%	$5
			£	*1,517*	*19*		*3*
40. CP Railway	Railroad	Canada	$	$2,335	$546	23.4%	$316
			C$	*3,666*	*857*		*496*
41. Expeditors	Forwarding	U.S.	$	$2,297	$171	7.4%	$113
42. USFreightways	Trucking/logistics	U.S.	$	$2,251	$81	3.6%	($67)
43. J.B. Hunt	Trucking/intermodal/logistics	U.S.	$	$2,248	$101	4.5%	$52
44. Swift Transportation	Trucking	U.S.	$	$2,101	$123	5.9%	$63
Total of 42 major logistics and freight transport groups (excluding Schneider and ABX Logistics)			**$**	**$317,733**	**$20,916**	**6.6%**	**$10,138**
Total of 44 major logistics and freight transport groups (including Schneider and ABX Logistics)			**$**	**323,356**	**N/A**	**N/A**	**N/A**

Notes: The ranking is based on figures published by companies. When available, the relevant main transport/logistics subsidiaries' figures are shown. However, group figures for the Deutsche Post, Bollore Investissements and Pittson/BAX conglomerates include revenue from non-transport/logistics activities.

(1) In August, Deutsche Post World Net completed the takeover of the non-airline activities of Airborne Inc. for $1.05 billion in cash. During 2002, Deutsche Post acquired a 53.6-percent interest in DHL International, thereby gaining full control of the company. DHL International was 100-percent consolidated in the results of Deutsche Post for the first time in 2002.

(2) The results for FedEx are for its financial year ended May 31.

(3) Deutsche Bahn's group figures includes those of newly acquired Stinnes/Schenker since the third quarter of 2002.

(4) These are the combined figures for the container shipping, agencies, terminals and logistics activities of A.P. Moller.

(5) The figures for NYK, Mitsui O.S.K. Lines and "K" Line are for their financial year ended March 31.

(6) P&O Nedlloyd is 50-percent owned by the P&O group.

(7) Canadian National includes Wisconsin Central Transportation Corp. since October 2001.

(8) CP Ships is an independent company since October 2001, following the breakup of the CP conglomerate.

(9) In 2002, Yellow completed the spin-off of SCS Transportation, Inc. In July 2003, Yellow announced a plan to acquire Roadway for $966 million.

(10) The figures for Nippon Express are for its financial year ended March 31, 2002.

Table 2

Logistics, transport sector 2001-2002 financial results

(in $millions)

	2002				2001				% change 2002 vs. 2001			
	Group revenue	Operating profit	Operating profit margin	Net profit	Group revenue	Operating profit	Operating profit margin	Net profit	Group revenue	Operating profit	Operating profit	Net profit
Total of 3 integrators (UPS, FedEx and Airborne)	$57,103	$5,625	9.9%	$4,027	$54,484	$5,271	9.7%	$3,090	5%	7%	0%	30%
Total of 7 forwarders/3PLs (Exel, K&N, Panalpina, Hays, Pittston/ BAX, Tibbett & Britten and Expeditors)	$30,808	$1,017	3.3%	$546	$27,085	$1,159	4.3%	$484	14%	(12%)	(1%)	13%
Total of 12 maritime transport cos. (A.P. Moller, NYK, MOL, P&O group, P&ONL, NOL, K Line, Hyundai, Hanjin, Hapag-Lloyd, CP Ships and OOIL)	$68,098	$1,896	2.8%	$430	$61,033	$2,875	4.7%	$383	12%	(34%)	(2%)	12%
Total of 6 North American railroads (UP, BNSF, CSX, NS, CN and CP Railway)	$42,119	$7,747	18.4%	$3,811	$41,306	$7,368	17.8%	$3,271	2%	5%	1%	17%
Total of 10 trucking-based groups (Nippon Express, Ryder, CNF, Yellow, Geodis, C.H. Robinson, Roadway, USFreightways, Swift and J.B. Hunt)	$41,277	$1,263	3.1%	$438	$43,085	$179	0.4%	($493)	(4%)	606%	3%	189%
Total of 4 diversified conglomerates (Deutsche Post, Deutsche Bahn, TPG and Bollore)	$78,328	$3,368	4.3%	$886	$57,927	$3,227	5.6%	$1,696	35%	4%	(1%)	(48%)
Total	$317,733	$20,916	6.6%	$10,138	$284,740	$20,079	7.1%	$8,431	12%	4%	0%	20%

Table 3

2002 revenues, traffic

Kuehne & Nagel has gathered comparative figures on revenues and traffic volumes of the largest transport and logistics groups by business field — contract logistics and air and sea freight forwarding.

Contract logistics

1. Exel CHF5.5 billion ($4 billion)
2. TPG CHF5.1 billion ($3.6 billion)
3. Tibbett & Britten CHF3.6 billion ($2.5 billion)
4. Wincanton (including P&O Trans-European) CHF2.6 billion ($1.8 billion)
5. Hays CHF2.1 billion ($1.5 billion)
6. Ryder CHF2.1 billion ($1.5 billion)
7. DHL Danzas CHF1.6 billion ($1.1 billion)

Air freight

1. DHL Danzas CHF3.1 billion ($2.2 billion)
2. Panalpina CHF3 billion ($2.1 billion)
3. Exel CHF2.8 billion ($2 billion)
4. Nippon Express CHF2.4 billion ($1.7 billion)
5. Kuehne & Nagel CHF2.1 billion ($1.5 billion)
6. Deutsche Bahn/Schenker CHF1.7 billion ($1.2 billion)
7. Expeditors CHF1.7 billion ($1.2 billion)

Worldwide container freight volumes

1. Kuehne & Nagel 1 million TEUs
2. DHL Danzas 800,000 TEUs
3. Panalpina 605,000 TEUs
4. Deutsche Bahn/Schenker 590,000 TEUs
5. Exel 185,000 TEUs
6. UPS/Fritz 180,000 TEUs
7. Expeditors 170,000 TEUs

Source: Kuehne & Nagel.

EXHIBIT B

cc: 020/030

WAYNE T. GILCHREST
1st District, Maryland

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
COAST GUARD AND MARITIME TRANSPORTATION
WATER RESOURCES
COMMITTEE ON SCIENCE

ORIGINA

Congress of the United States
House of Representatives

COMMITTEE ON RESOURCES 022
CHAIRMAN, FISHERIES CONSERVATION, WILDLIFE AND OCEANS 10
NATIONAL PARKS, RECREATION AND PUBLIC LANDS 20
CHAIRMAN, CHESAPEAKE BAY WATERSHED TASK FORCE 30
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RECEIVED 03 SEP 24 PM 3:13 OFFICE OF THE SECRETARY FEDERAL MARITIME COMM

September 15, 2003

Brant L. VanBrakle
Secretary, Federal Maritime Commission
800 North Capitol Street, NW
Washington, DC 20573

Dear Commissioners:

I am writing to urge your favorable consideration of the petition United Parcel Service (UPS) has filed for an exemption from the prohibition on Non-Vessel Operating Common Carriers (NVOCCs) from entering into confidential contracts with their customers.

During consideration of the Ocean Shipping Reform Act of 1998 (OSRA), at which time I chaired the House Transportation and Infrastructure Subcommittee on Coast Guard and Maritime Transportation, Congress reviewed the role of NVOCCs within the ocean shipping industry. Based on the nature of the industry at the time, we determined NVOCCs should be regulated differently than vessel operators. NVOCCs were then mostly small enterprises that neither owned ocean vessels nor the cargo being shipped. In order to protect shippers and to guarantee liability coverage, Congress determined NVOCCs should operate under a published tariff system when dealing with their customers.

Now five years after enactment of OSRA, it is clear the US ocean shipping industry has changed dramatically. The unprecedented consolidation among ocean carriers and resulting loss of major US flagged carriers have led the remaining carriers to create vertically integrated logistics companies that now compete with NVOCCs. The current regulatory scheme, however, puts NVOCCs at a distinct disadvantage and should be revised.

In addition, it is important to note the operational characteristics of UPS that set it apart from other NVOCCs and the concerns about them that led to the different regulatory scheme in OSRA. UPS is no small enterprise, but perhaps the most sophisticated, integrated, intermodal transportation network in the world, which includes air, rail, and surface and NVOCC transportation. It is deemed a "carrier" in the surface and air freight industries. Also, the company makes significant annual capital investments to its asset-based transportation infrastructure.

Under OSRA Congress granted FMC broad exemption authority to deal with anticipated changes in the shipping industry. The UPS petition presents FMC the opportunity to acknowledge these

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changes and promote fair competition that will ultimately benefit the industry and shipping consumers worldwide. 1 am confident you will give the merits of the UPS petition your every consideration and render an appropriate decision. Thank you.

Sincerely,

Wayne T. Gilchrest

Wayne T. Gilchrest
Member of Congress